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REPORT ON

OPERATIONS UNDER

THE BRETTON WOODS

AND RELATED

AGREEMENTS ACT

1995

Prepared by
International Trade and Policy Branch
May 1995

Canada

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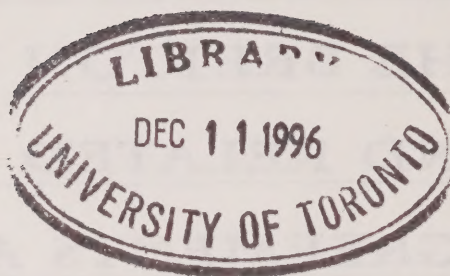
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REPORT ON OPERATIONS UNDER THE BRETTON WOODS AND RELATED AGREEMENTS ACT 1995

Prepared by:
International Trade and Finance Branch
May 1996





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The 1995 report is also available on Internet.
Finance Canada's Home Page is located at
<http://www.fin.gc.ca/>



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INTRODUCTION

The Bretton Woods Institutions, the International Monetary Fund (IMF) and the World Bank, were founded at a conference held in Bretton Woods, New Hampshire, in 1944. The IMF was established to promote the smooth functioning of the international monetary system, encourage international trade and capital movements and support high rates of sustainable economic growth. The IMF (or the "Fund" in the following) is now the central institution in the international monetary system. It exercises a surveillance function by monitoring members' economic policies, provides policy advice and extends short- and medium-term financial assistance to countries faced with balance of payments and other economic difficulties.

The World Bank's goal is to help raise living standards and to promote sustainable development in developing countries. As the premier development institution in the world, it provides a wide range of assistance to developing countries, including lending for projects, technical assistance and structural economic policy advice. The World Bank Group is comprised of four organizations: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The IBRD is commonly the component referred to as the "World Bank" (or the "Bank" in the following). The IDA is the component that provides assistance to the world's poorest developing countries.

Canada is the eighth largest member of the Fund and Bank after the six other G-7 countries and Saudi Arabia. Canada's formal participation is authorized under the *Bretton Woods and Related Agreements Act*. Under Section 13 of the Act, it is stated that:

"The Minister of Finance shall cause to be laid before Parliament, on or before March 31 next following the end of each year or, if Parliament is not then sitting, on any of the first thirty days next thereafter that either House of Parliament is sitting, a report containing a general summary of operations under this Act and details of all those operations that directly affect Canada, including the resources and lending of the World Bank Group, the funds subscribed or contributed by Canada, borrowings in Canada and procurement of Canadian goods and services."

The sections that follow review the activities and operations of first the IMF and then the World Bank for the year 1995. A final section deals with issues common to both institutions. The annexes contain detailed numerical summaries of the year's activities.

Roles of the IMF and World Bank

International Monetary Fund

- *Oversees the international monetary system and promotes international monetary co-operation.*
- *Promotes exchange stability and orderly exchange relations among member countries.*
- *Provides short- to medium-term financial support to members facing balance of payments difficulties.*
- *Draws its financial resources primarily from the quota subscriptions of its members.*

World Bank

- *Promotes economic development and structural reform in developing countries.*
- *Assists developing countries through long-term financing of development projects and programs.*
- *Provides special financial assistance to the poorest developing countries through the International Development Association.*
- *Stimulates private enterprises in developing countries primarily through its affiliate, the International Finance Corporation (IFC).*
- *Secures most of its financial resources by borrowing on international capital markets.*

INTERNATIONAL MONETARY FUND

Overview

Canada is an open economy that is highly dependent on foreign trade and financial flows. Consequently, Canada has a major stake in a strong international monetary system that promotes the free movement of goods, services and financial assets. The IMF is important to ensuring a sound world financial system and broad-based sustainable economic growth through assistance to countries experiencing unsustainable external imbalances and related economic difficulties.

Benefits of Membership

IMF membership provides a number of specific benefits:

- The Minister of Finance is a Governor of the Fund and has an Executive Director on its 24-member Executive Board. This representation allows Canada to have a high-level influence on decisions taken by the IMF on specific country assistance programs and major issues affecting the world financial system.
- The IMF, through its regular surveillance of member country economies, provides Canada with an independent source of policy advice on macroeconomic policies and engages in regular dialogue on these policies with Canadian officials at Finance Canada and the Bank of Canada.
- The efforts of the IMF to ensure debtor countries abide by their obligations under Fund support programs help ensure that they repay Canadian bilateral loans and use our bilateral development assistance effectively.
- Canada earns a financial return on its financial position in the IMF.
- Were Canada ever to experience severe balance of payments difficulties, it would have the right to approach the IMF for financial assistance.

Canada's Priorities at the IMF

Global economic and financial stability

A key objective for Canada is to ensure that the IMF is able to cope with the emerging needs of the world economy and can deal with any new crises that might arise such as, for example, that which affected Mexico in late 1994. This requires that the Fund move quickly to adapt its lending facilities and policies.

In response to the Mexican financial crisis in late 1994, the IMF moved on an unprecedented scale to support Mexico's strong program of economic adjustment and to limit damage to other economies. However, the crisis illustrated the need to review the capacity of the international monetary system, and, especially, the IMF to deal with major financial crises.

The Mexican Crisis

The Mexican financial crisis in late 1994 had repercussions not just for Mexico, but the international monetary system. Investor concern about the Mexican peso, exacerbated by Mexican political developments, triggered capital flight and repeated bouts of speculation against the peso through 1994.

These developments led to a steady depletion of foreign reserves and the devaluation and eventual floating of the peso in December 1994. Foreign and domestic investors who had incurred substantial losses on peso-denominated assets withdrew significant amounts of funds from Mexican financial markets.

The severe crisis of confidence spilled over on other developing country "emerging markets", primarily in Latin America, and even some industrial countries.

The Mexican government moved quickly to introduce a stabilization program to reduce economic imbalances and restore the confidence of foreign and domestic investors. The IMF responded on an unprecedented scale to support Mexico's adjustment program and limit spill-over and contagion effects. On February 1, 1995, the IMF approved an 18-month stand-by credit for Mexico of SDR 12.1 billion (U.S. \$17.8 billion). This is the largest IMF package ever approved for a member country.

Discussions at the IMF's Interim Committee (a meeting of IMF Governors with representation on the Executive Board held twice a year) in April 1995 and the Halifax Summit in July 1995 led to recommendations for reforms in IMF procedures and facilities. The key recommendations were directed at:

- identifying problems before they reach crisis proportions through a strengthening of the IMF's surveillance of national policies and financial market developments and through fuller disclosure of this information to market participants;
- ensuring that procedures are in place to shorten the time needed to respond to financial crises when they do occur;
- ensuring, through consideration of an 11th General Review of Quotas, that the Fund has adequate resources for its regular lending operations and ensuring, through a doubling of the resources currently available under the IMF's General Arrangements to Borrow, that the Fund has adequate liquidity to respond to financial emergencies; and

- ensuring that the Fund has sufficient resources to continue to finance the Enhanced Structural Adjustment Facility for the benefit of the IMF's poorest member countries.

As follow-up to these recommendations, the Executive Board of the Fund took action over the last year in the following areas.

Provision and publication of data. New data standards are being established to better inform markets of financial and economic developments and to strengthen Fund surveillance. Countries that are capital market borrowers will make publicly available more timely, comprehensive data under the IMF's "Special Data Dissemination Standard" established in April 1996. The IMF will establish a less demanding general standard for all members later in 1996. Information on the statistical practices of members subscribing to the Special Data Dissemination Standard will be posted on an IMF "electronic bulletin board" on the Internet. The IMF expects to have the electronic bulletin board operational by the end of August 1996. Canada has subscribed to the higher standard.

Emergency Financing Mechanism. The Fund can respond more promptly to serious financial crises through a new standing procedure – the Emergency Financing Mechanism. The new procedure will allow the Fund, in exceptional circumstances, to respond quickly with assistance for members facing sudden market disturbances and committed to undertaking necessary reform measures.

General Arrangements to Borrow (GAB). To ensure that the Fund has adequate resources to meet demands, a group of industrial countries known as the Group of Ten (G-10) agreed last October to examine new financing arrangements that could complement the General Arrangements to Borrow (a credit arrangement which backstops the IMF's regular resource base). A G-10 Working Group, chaired by Canada, has undertaken consultations with potential new participants. The aim is to double the resources available through the GAB with contributions from the G-10 countries and from other countries having the capacity to support the international financial system.

Enhanced Structural Adjustment Facility (ESAF). In October 1995, the Interim Committee supported a continuation of the ESAF, the Fund's main lending arrangement for providing resources to the poorest countries on concessional terms. The Committee requested that the Executive Board prepare proposals on the future financing of ESAF, including putting the facility on a self-sustained basis. At its April 1996 meeting, the Committee requested the Executive Board conclude its discussions on developing financing proposals in time for the IMF/World Bank annual meetings in September 1996.

IMF Issues at the Halifax Summit

G-7 leaders agreed at the 1994 Economic Summit that the June 1995 Halifax Economic Summit should focus on how to “assure that the global economy of the 21st century will provide sustainable development with good prosperity and well-being for the peoples of our nations and the world” by reviewing the framework of international institutions required to meet these challenges.

The G-7 concluded at the Halifax Summit that while the international financial institutions had shown exceptional flexibility in responding to the changing needs of the world economy, improvements were needed. Consequently, the G-7 recommended that the International Monetary Fund:

- *develop an improved early warning system to detect financial crises by strengthening IMF surveillance of national economic policies and financial market developments;*
- *increase the IMF's capacity to respond to crises when they occur by establishing new procedures to provide quicker access to IMF resources; and*
- *increase the resources available to the IMF to deal with financial crises.*

Transparency and accountability

Wider public exposure of the activities of the IMF contributes to greater public understanding of the institution. Canada has supported measures to enhance the transparency and accountability of the Fund's operations. The Fund has responded to the concerns of members by making available more and more information on its activities. This includes publication of country reports, increased coverage of the Fund's annual consultations with member countries, and opening of the archives for documents that are more than 30 years old.

Governance issues

The IMF is engaged on governance issues. While it often counsels countries to exercise fiscal restraint, the IMF devotes increasing attention to the composition of government spending in member countries and the economic implications of unproductive expenditures, especially military spending. IMF-supported programs emphasise the importance of reducing or eliminating unproductive expenditures to free up financing for more economically useful purposes, including support for social safety nets and other social expenditures.

How to Access Information from the IMF

The IMF's Publication Services provides a wide variety of Fund documents on the policies and operations of the IMF as well as on world financial and economic developments, including:

- *IMF Annual Report,*
- *World Economic Outlook,*
- *IMF Staff Country Reports,*
- *International Financial Statistics,*
- *Annual Report on Exchange Arrangements and Exchange Restrictions,*
- *Press Releases,*
- *IMF Survey.*

The Publications Centre is located at 700 - 19th Street, N.W., Washington, D.C. 20431 (Telephone: (202) 623-7430; facsimile: (202) 623-7201). Internet address: publications@imf.org. A selection of Fund information is also available on the Internet through the World Wide Web: gopher://gopher.imf.org.

Administrative Efficiency

Canada has been among those urging the Fund to conduct its own administrative operations in a fiscally responsible manner. Canada has pressed the Fund to seek more cost-effective ways to deliver its programs and has opposed increases in staff salaries. Fund management has responded through measures to streamline Fund activities, constrain administrative expenses and reduce staffing levels.

Lending Developments in 1995

A core activity of the Fund is to provide short- and medium-term financial assistance to members faced with balance of payments difficulties. The objective is to enable countries facing such difficulties to correct temporary payments imbalances with a minimum of disruption to the international monetary system. The provision of financing from the IMF, and the additional financing that an arrangement with the Fund often attracts from other sources, enable smoother economic adjustment.

At the end of 1995, the IMF had lending arrangements worth SDR 31.2 billion¹ in place for 62 member countries (see Annex 1). Drawings by these countries increased sharply in 1995 to SDR 18.4 billion, three times the level of 1994. The significant rise in lending reflected large programs by Mexico (SDR 8.8 billion) and Russia (SDR 3.6) billion.

¹ The SDR is the standard unit of account for the IMF's operations. It represents a weighted basket of five major currencies – the U.S. dollar, the German mark, the Japanese yen, the pound sterling and the French franc. At the end of 1995, the exchange rate was SDR 1 = C \$2.03.

How the IMF Works

The IMF works like a credit union. It has a large pool of resources that it makes available in several ways to help members finance temporary balance of payments problems.

Members provide resources to the IMF determined by "quotas" reflecting each country's relative importance in the world economy. A country's quota in turn helps determine the amount of Fund resources that it may use if it experiences economic difficulties. At the end of 1995, the total quotas for the Fund's 181 members was SDR 145.3 billion.

A member country uses the general resources of the IMF by making a purchase (drawing) of other members' currencies with an equivalent amount of its own currency. A member repurchases (repays) its own currency from the IMF with other members' currencies over a specified period of time and with interest. In this way, a member country receives credit from other members.

Members seeking financial assistance can draw on a "reserve tranche" and four "credit tranches", each amounting to 25 per cent of their quota. For access to resources beyond the first credit tranche, the member and the IMF have to reach a mutual agreement on a set of economic measures and reforms aimed at removing the source of the country's balance of payments difficulty and creating the conditions necessary for sustainable non-inflationary growth. Depending on the severity of the problem, these measures are agreed as part of a "Stand-by Arrangement" (SBA) or an "Extended Fund Facility" (EFF). Stand-by arrangements typically last 12 to 18 months while extended arrangements generally run for three years. Drawings of the higher tranches are generally spread over the duration of the arrangement.

Members can also use financial facilities created for specific purposes, including the Compensatory and Contingency Financing Facility (CCFF) which provides financial support to members experiencing temporary export shortfalls or other unforeseen adverse external shocks.

Concessional financing to low-income developing countries under the Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF) is made available in the form of highly concessional loans.

Table 1
IMF Resources Flows

	1994	1995
	(in SDR billions)	
Total purchases	5.9	18.4
Of which:		
Stand-by arrangements	1.8	14.3
Extended fund facility	0.9	2.0
Compensatory and contingency financing facility	0.3	0.0
Structural adjustment facility and		
Enhanced structural adjustment facility	0.9	1.4
Systemic transformation facility	1.9	0.6
Total repurchases	4.6	6.6
Net purchases	1.3	13.8

In recent years, lending has also increased substantially under Stand-by Arrangements and the IMF's concessional facilities (Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF)). In addition, lending under the Extended Fund Facility (EFF) doubled in 1995 as a result of an SDR one billion credit to Argentina.

Recourse to two other special purpose facilities, the Systemic Transformation Facility (STF) and the Compensatory and Contingency Financing Facility (CCFF), declined in 1995. Access under the STF, a temporary facility created to help Russia and other former centrally planned countries make the transition to market economies, expired at the end of 1995.

Managing Canada's Interests at the IMF

The Minister of Finance is Canada's Governor at the IMF and is responsible for the management of Canadian interests at the Fund. The Minister exercises influence on IMF issues through interventions at the spring and fall meetings of the Interim Committee, his plenary speech at the IMF/World Bank Annual Meetings and through periodic meetings with the Managing Director of the Fund. (The Minister's speeches are available on the Internet. Finance Canada's Home Page is located at <http://www.fin.gc.ca/>)

Management of Canada's interests in the ongoing work of the IMF is delegated by the Governor to the Executive Director, Mr. Ian Clark, Canada's representative on the Executive Board. Mr. Clark is one of 24 Executive Directors; he represents Canada and several other countries (Ireland and several Caribbean countries) which form a constituency at the Executive Board. Of the 24 members of the current Executive Board, 12 are from developing countries and 12 from developed countries. As the main decision making body of the Fund, the Board normally meets three times a week.

The Department of Finance co-ordinates Canadian policy and operational interests in the IMF. Other involved departments and agencies include the Bank of Canada, Foreign Affairs and International Trade Canada (FAITC), and the Canadian International Development Agency (CIDA). In co-operation with these agencies and departments, and with our Executive Director's Office at the IMF, the International Finance and Economic Analysis Division of the Department of Finance conducts analyses and prepares advice on the policy issues and specific country programs that are brought before the Executive Board.

Parliament is informed of the activities and operations of the Bretton Woods institutions through the tabling of the annual report on the operations of the Bretton Woods institutions, the communiqués of the Interim and Development Committees and by appearances of the Canadian Executive Directors and departmental officials before parliamentary committees.

Canada's Voting Record

Since most decisions at the Fund are taken on a consensus basis, formal votes by Governors and the Executive Board are rare. Canada attempts to influence the development of Fund policy proposals before they are brought to the Board (often through the circulation of memorandum outlining Canadian positions) or to influence other members through Board discussions. In 1995, Canada voted against a proposal to increase the salaries of Executive Directors and opposed an increase in IMF staff salaries.

Canada's Office at the IMF

In addition to the Executive Director, Canada's office is staffed by a Canadian advisor and two technical assistants. Ireland staffs the Alternate Director's position and the Caribbean countries occupy a second advisor's position.

Structure of the Executive Director's Office

Structure of the Executive Director's Office

Executive Director: Mr. Ian Clark
 Canadian Advisor: Mr. Sean O'Connor
 Canadian Assistant: Ms. Nicole Laframboise
 Canadian Assistant: Mr. Christoph Duenwald
 Telephone: (202) 623-7778; facsimile no: (202) 623-4712
 Address: 11-100, 700-19th Street, N.W. Washington, D.C. 20431 USA

The primary responsibility of the Executive Director's office is to represent the interests of Canada and the other members of the constituency at the Fund's Executive Board. The Office participates in the Board discussions of a wide variety of policy, operational and administrative matters, including surveillance issues and country assistance requests and reviews.

Canada's Financial Participation

Canada's financial participation in the IMF consists primarily of its quota subscription. Canada's quota is SDR 4,320.3 million, or about 3 per cent of total quotas. Our quota subscription is an asset that is made available to the Fund partly in Canadian dollars and partly in reserve currencies, such as U.S. dollars or SDRs. These latter non-Canadian dollar amounts continue to be part of Canada's foreign exchange reserves. As an asset, Canada's quota subscription is not an expenditure item in the budget of the Canadian government.

Only a tiny portion of the Canadian dollar part of our subscription is actually held in cash by the IMF. The balance is held by the Bank of Canada (in demand notes) in the event the IMF needs to draw upon additional resources. Canada earns interest on its quota subscription when the Canadian dollar is used in Fund lending operations, i.e. drawn by other members. In 1995, Canada received SDR 17.4 million on its net creditor position in the IMF.

Table 2

Canada's Financial Position in the IMF

	December 31, 1995	December 31, 1994
	(in SDR billions)	
Quota	4,320.3	4,320.3
Fund holdings of Canadian dollars ¹	3,484.2	3,691.2
Reserve position in the Fund ²	836.2	629.9

¹ In accordance with Fund regulations, at least 0.25 per cent of Canada's quota is held by the IMF in a Canadian dollar cash deposit at the Bank of Canada. The Fund's remaining Canadian dollar holdings are in the form of non-interest-bearing demand notes, also kept by the Bank of Canada.

² This is the amount Canada is entitled to immediately draw on demand from the IMF for balance of payments purposes. Our reserve position in the Fund is the result of both the portion of our quota subscription made available to the Fund over time in reserve currencies and the use of the Canadian dollar in Fund financial transactions with other members. As the name suggests, the reserve position in the Fund is a part of Canada's official foreign exchange reserves.

At the end of the year, Canada's holdings of SDRs amounted to SDR 791.8 million, or 101.6 per cent of our cumulative allocation of SDRs. On average in 1995, Canada held SDRs in an amount greater than our allocation,

and so earned net interest income of SDR 2.8 million². This income, and the net income from our net creditor position with the Fund noted above, are paid into the Government of Canada's Exchange Fund Account, adding to our foreign exchange reserves.

Canada contributed in 1995 to the IMF's Enhanced Structural Adjustment Facility (ESAF). The facility provides financial support on concessional terms to low-income countries facing protracted balance of payments problems. Canada's commitment to ESAF is a loan of SDR 500 million and a grant of approximately SDR 190 million. At the end of 1995, loan payments under these arrangements totalled SDR 190.4 million and subsidy contributions equalled SDR 46.7 million. Remaining obligations at the end of 1995 were SDR 309.7 million under the ESAF loan and SDR 143.3 million under the interest subsidy.

Canada also has a credit commitment under the General Arrangements to Borrow (GAB), the credit arrangement established by the Group of Ten (G-10) industrial countries to supplement the Fund's resources, if needed. Canada's GAB commitment is the equivalent of SDR 892.5 million. This line of credit has not been called upon in recent years and was not used by the Fund in 1995. It is, however, an important backstop for the Fund in the event of financial crises.

Challenges Ahead

A critical challenge for the Fund is to ensure that it is well positioned to deal with threats to the stability of the international monetary system. In addition, the Fund must continue to provide support to members with balance of payments problems, especially the most heavily indebted poor countries. To meet these challenges:

- The work underway with the G-10 and other countries to double the resources currently available under the IMF's General Arrangements to Borrow should be completed to ensure that the Fund has adequate liquidity to meet financial crises.
- The IMF also requires sufficient resources for its regular lending operations. This underlines the importance of obtaining an adequate increase in Fund quotas under the Eleventh General Review of Quotas which is now underway. Efforts should also be made in the Quota Review to realign members' quotas more closely with their relative positions in the world economy.

² The SDR is an international reserve asset created by the IMF and allocated periodically (by a decision of the IMF Board of Governors) to its members as a supplement to their foreign currency and gold reserves. No allocations have been made since the early 1980s. When a member's holdings of SDRs is greater (lesser) than its cumulative allocation, that member (the Fund) receives interest on the difference.

- The IMF should make an effective contribution to a comprehensive debt strategy by ensuring that it has sufficient resources to continue to finance the Enhanced Structural Adjustment Facility for the benefit of the poorest countries. Further efforts to establish a self-sustained ESAF should continue.

THE WORLD BANK

Overview

Membership in the World Bank affords Canada an important voice on key development issues in the world's premier multilateral development bank. With 179 members, the World Bank has a far-reaching impact on global development. It assists members, both developing countries and countries in transition from planned to market economies, by providing access to world financial markets for development purposes; as well, it advises on policy issues crucial to improving members' longer term development prospects. The World Bank provided loans and credits to these countries in its fiscal year 1995 of over U.S. \$22 billion (see Annex 2). In 50 years of existence it has provided over \$350 billion to the developing world (see Annex 3).

Many of the Bank's members, both developing countries and countries in transition, continue to face serious difficulties in raising the living standards of their populations. However, the Bank's support has been instrumental in transforming a number of countries from dependence towards greater self-reliance. Where countries have established an appropriate enabling environment, private capital is stepping in to play an increasingly important role in helping to finance future growth. In this way, the World Bank has played an important catalytic role.

A new vision for the World Bank

At the June 1995 Halifax Summit, Canada and other G-7 members recommended a number of fundamental changes in the operations of the multilateral institutions. The World Bank's new President, James Wolfensohn, has responded to the challenge by initiating a program of far-reaching reforms. He is committed to making the Bank a more client-focused, better-managed and more responsive organization, better able to meet evolving global challenges. While reforms are still at an early stage, Canada is giving its strong support to President Wolfensohn's efforts to bring about real change at the Bank.

Halifax Summit: Implications for the World Bank

The Halifax communiqué called for reforms of multilateral institutions and improvements in co-ordination. In responding to these recommendations, the World Bank is:

- *undertaking a series of internal reforms to make the Bank more client-focused, better-managed and more responsive to global challenges;*
- *decentralizing its operations. Increasing focus will be placed on work done in the field to improve consultations with those impacted by the Bank's projects. A number of country officers will be moved from headquarters to the field to improve co-ordination on the ground;*
- *better co-ordinating its programs with other multilateral development banks through such means as a common evaluation working group and closer co-operation on country strategies and economic analysis;*
- *improving the integration of private sector activities across the World Bank Group and bringing private sector development under a newly appointed Managing Director who is also heading a new Private Sector Task Force;*
- *reorganizing the Development Committee (the Ministerial committee of the IMF and World Bank) to promote more effective decision-making with greater emphasis on a real exchange of views at the Ministerial level.*

Benefits of membership

- Canada's voting share of about 3 per cent in the World Bank gives us a seat on the Bank's 24-member Executive Board and on the joint IMF/World Bank Development Committee. Canada has the opportunity, both at the Executive Board and within the Bank, to provide direct input into the formulation of Bank policies and operational decisions. Canada and other shareholders provide the Bank with guidance which is ultimately aimed at improving developing countries' economic, social and environmental performance.
- Canada benefits from the Bank's leadership role in bringing together donors to respond quickly to emergency situations in countries in post-conflict situations. For example, Canada and other donors worked closely with the World Bank to assemble an emergency reconstruction assistance package for Bosnia in 1995. In the context of the Middle East peace process, Canada has been closely involved with the Bank's efforts to mobilize resources for the West Bank and Gaza. Through such co-operation, Canada's influence can be leveraged beyond what could be achieved bilaterally.

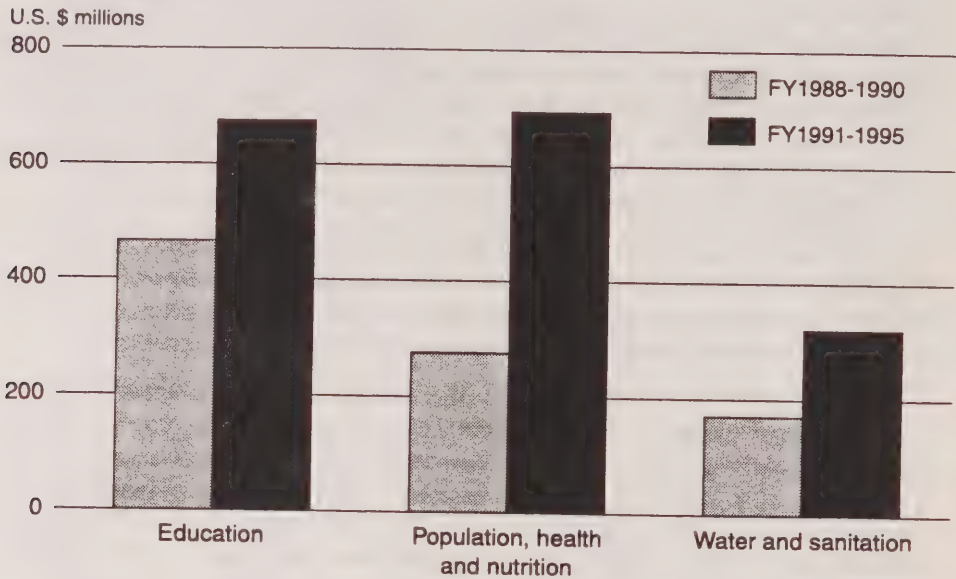
- Canada benefits from the role the World Bank plays in bringing together donors for Consultative Groups (CGs) to provide assistance to specific countries in need. Through CGs, donor countries are able to co-ordinate their policy advice and operational programs to provide more coherent advice to borrowers and to maximize the impact of their operations. Also beneficial is the close collaboration among the Bank, CIDA and other donors on major international programs, such as the Special Program of Assistance for Africa and the Global Environment Facility.
- Canadian aid agencies, including especially CIDA, draw heavily on the Bank's research and policy work to enrich their understanding of international development. A wide variety of CIDA programs also benefit significantly from direct access to Bank staff and expertise.
- Participation in the Bank affords an opportunity to influence international development policy issues of concern to Canadians. Input into the Bank's annual research report, the World Development Report, is one way in which Canada can influence global discussions on poverty, labour, health and the environment. Another specific and important example of this in 1995 was the establishment by CIDA and the World Bank of a joint Working Group on Poverty.
- Finally, Canadian companies and individuals enjoy substantial procurement benefits from our membership in the World Bank Group. Cumulative disbursements on IBRD and IDA loans for Canadian goods and services totalled more than three billion U.S. dollars by the end of fiscal year 1995.

Canada's Priorities at the World Bank

Developmental priorities

Despite considerable progress in improving living standards world-wide, over three billion people remain in dire poverty. Canada has long been a key player in international efforts to assist the poorest and strongly promotes poverty reduction as the key priority of the World Bank. The Bank has taken an increasingly sophisticated (or "integrated") view of poverty reduction in recent years; it has recognized that poverty reduction cannot be addressed in isolation. Private sector development, good governance and environmentally sustainable policies are just a few of the factors which need to be considered in designing strategies to help improve the living standards of the poor in member countries.

Lending for the social sectors has been a focal point of the Bank's poverty-reduction efforts in recent years. Human resource development lending, particularly for primary health and education, has become increasingly important; it has increased from an average of about 5 per cent in the 1980s to about 15 per cent over the past three years. The Bank is now the world's single largest source of financing for investment in human capital.

Increase in IDA Social Sector Lending

Private Sector Development: Canada has encouraged an increasingly co-ordinated approach to private sector development within the Bank Group over the past year. This reflects the growing recognition world-wide of the critical role played by the private sector in supporting longer-term sustainable development. The Bank supports about \$25 billion of private-sector finance a year; the Bank also leverages about \$4 billion in private investment a year through "financial intermediation" loans it makes of about \$2 billion a year.

The Bank introduced, or put greater emphasis on, new financial techniques in 1995 to assist in private sector development. For example, the Bank is placing greater emphasis on using loan guarantees in its lending activities. An estimated U.S. \$200 billion is currently spent by developing countries on infrastructure alone – an amount far above the capacity of governments and international agencies to finance. Such long-term funding volumes can only be supported by greater reliance on financing from the private sector. Guarantees are one important means of ensuring this flow of resources. The Bank is increasingly using this device to increase developing countries' access to international and domestic capital markets.

Another example of the private sector emphasis in development is the growing impact of micro-credit operations (loans of relatively small amounts of money made to the poor by grass roots organizations such as the Grameen Bank in Bangladesh). For a small investment, these organizations have been successful in improving the living conditions of the poor, particularly women in developing countries. Evidence from these operations is compelling; not only does it show that the poor are capable of helping themselves, given equal opportunities, but it shows that the poor can be very good credit risks. The success of these initiatives has led the World Bank, along with other donors, including Canada, to establish the Consultative Group to Assist the Poorest (CGAP) in order to augment the resources of micro-finance institutions.

Consultative Group to Assist the Poorest (CGAP)

The Executive Board authorised the Bank to participate in the CGAP in March 1995. This group has three key objectives:

- *to increase the level of resources available to the poor in developing countries through micro-finance programs;*
- *to provide donors with a vehicle to disseminate and exchange information and lessons of experience on micro-finance; and*
- *to improve donor co-ordination in the provision of these services.*

The CGAP seeks to strengthen the ability of micro-finance organizations, with a proven track record, to provide assistance to the poor. The World Bank contributed \$30 million to this fund; other donors, including Canada, contributed a total of \$70 million.

Good Governance: Canada has pressed the Bank to become more active in addressing issues of good governance in developing countries over the past year. The World Bank's response has generally been positive. Bank staff now encourage more effective management of public expenditures and more participatory and open approaches in decision-making in borrowing countries. However, the issue of how to reduce unproductive expenditures, particularly excessive military expenditures, remains a particular concern of Canada, and is an area where further emphasis would be welcome. At a time of scarce donor resources, the Bank's clients can ill afford to waste resources on unproductive spending. The Bank needs to give greater consideration in its lending decisions to a borrowing government's performance on reducing unproductive expenditures.

Environmentally Sustainable Development: Canada has long been a vocal advocate of the need for the Bank to better integrate environmental considerations into its operations and is now a keen supporter of the Bank's efforts. The establishment of the Environmental Sustainable Development (ESD) vice-presidency in 1993 has been instrumental in supporting this objective. In 1995, an important environmental review of the Bank's lending portfolio following the UN Conference on Environment and Development (UNCED) was undertaken. This review will help ensure that the Bank's future lending is environmentally sound.

Transparency and accountability

Transparency and accountability are fundamental to ensuring the longer-term sustainability of the Bank Group's operations. Canada has been a major proponent of increased openness at the Bank. The Bank has responded to concerns from shareholders by making public a growing number of documents on operations, both from IBRD/IDA and from the IFC.

How to Access Information from the World Bank

The World Bank's Public Information Centre, which became operational in early 1994, provides a wide range of Bank documents, including:

- *Project Information Documents (PIDs),*
- *Staff Appraisal Reports (after approval by the Board of Executive Directors),*
- *Country Economic and Sector Work Documents and Sectoral Policy Papers,*
- *The Annual Report and the World Development Report,*
- *The Monthly Operational Summary and International Business Opportunities,*
- *Environmental Data Sheets, Environmental Assessments, Environmental Analyses, and Environmental Action Plans,*
- *World Debt Tables,*
- *Operation Evaluation Department Précis.*

The Public Information Centre is located at 1776 G Street, N.W., Washington, D.C.20433. Telephone: (202) 458-5454. E-mail address: pic@worldbank.org. Additional up-to-date information is also available on the Internet (<http://www.worldbank.org>) in the following categories: general facts; current events; research; Inspection Panel; and new developments.

Transparency also requires better consultation with beneficiaries. Canada and other donors have pushed the Bank and borrowing countries to find ways to improve consultations with local peoples in beneficiary countries, not only in the design and implementation of projects, but also in the preparation of key policy documents such as country assistance strategies. In 1995, about one-third of the Bank's projects benefited from consultations with a range of interested parties in beneficiary countries.

Canada was one of the major supporters of the work of the Inspection Panel over the past year. The Inspection Panel was created to help the Bank become more accountable to stakeholders with concerns about the impacts of individual projects.

Accountability and the Inspection Panel

An Independent Inspection Panel opened for business in September 1994 to review whether Bank projects adhered to the Bank's own policies and procedures. The three-member Panel investigates complaints from those impacted by Bank projects. The Panel investigates to ensure that the complaint is valid and then passes its findings on to the Executive Board for final decision.

One of the more contentious projects investigated by the Panel in 1995 was the Arun III hydro-electric dam project in Nepal. The Panel unanimously concluded that there were violations of IDA policy and recommended a further in-depth investigation that was subsequently authorized by the Executive Board. On the basis of the Inspection Panel's final report, the President of the Bank took the decision to cancel the project.

Getting Results

Understanding the development impact of the Bank's operations is crucial to ensuring that the Bank's policy objectives are being met. Shareholders have come to realize that objective development impact indicators are critical to ensuring that funds are being used effectively. Discussions on how to develop such indicators have taken place in IDA, the Multilateral Development Bank Task Force (described later) and within the Executive Board.

In response, the Bank Group has begun developing a series of sectoral impact indicators. The complexity of the methodology, and the need for continual consultation within the Bank Group and with other donors, has made this a slow process. But consensus is emerging on the appropriate methodology and development indicators are expected to be incorporated into Bank operations over the next year.

Involving NGOs in decision-making

NGO involvement is now firmly rooted in the Bank's operations. About 40 per cent of Bank projects across all major sectors included some form of NGO participation in fiscal year 1995. NGOs have increasingly participated in the design stage of project preparation as well as in the implementation phase. The Bank has recently started to compile a *List of World Bank-Financed Projects with Potential for NGO Involvement*, which includes a number of upcoming Bank projects seeking NGO involvement. NGOs are also playing a stronger role in the Bank's economic and sector work, particularly in working with borrowing countries on the preparation of National Environment Action Plans and poverty assessments. NGOs' central role in the Global Environment Facility (GEF) is also noteworthy.

One key venue for ongoing dialogue is the NGO World Bank Committee. Membership consists of senior Bank managers and 26 NGO leaders from around the world (15 are from developing countries). Canada's current representative on this committee is Ruth Rempel from the Inter-Church Coalition on Africa. NGOs have also participated in a broad range of other discussions, including on IDA and the MDB Task Force. The Bank hosted four seminars with NGOs at the Social Summit on issues such as investing in people, collaboration with NGOs in the social sector, beneficiary participation and the challenges of development.

Here in Canada, NGOs have participated in a regular series of inter-departmental meetings following the Halifax Summit. This consultation has proven useful for both sides in advancing Canadian interests at the Bank.

Key Developments in 1995

The Halifax Summit: 1995 was a key year for Canada in the international arena. Canada was the host of the Halifax Summit that brought G-7 leaders together to examine critical international economic and financial issues. One of the major issues for discussion was reform of the international institutions, including the World Bank. G-7 leaders, while recognizing the continuing importance and contribution of the IFIs, felt that the IFIs have not always kept in step with the rapidly changing world economy. Leaders recommended a series of initiatives to improve the efficiency and effectiveness of the international system of institutions.

Multilateral Development Bank Task Force: The Task Force on Multilateral Development Banks, established in late 1994 by the Development Committee, completed its review of the multilateral system of development banks in early 1996. In line with the recommendations of Halifax, the two major objectives of the Task Force were:

- to assess the implications of economic change for the development priorities, instruments, operations, and management of the five principal MDBs, and to consider whether improvements could strengthen their impact on the development process; and
- to evaluate procedures and practices for co-ordination among the MDBs and other members of the development community, and consider whether it is possible to make any improvements on a regional, country or sectoral basis.

The Task Force released its report to Governors in March 1996, reaffirming the continuing relevance of the MDBs and the importance of their emphasizing an emphasis on poverty reduction and private sector development. Major recommendations of the report focus on ways to improve co-ordination at the country level, both at the operational level of the MDBs and at the level of shareholders. For example, MDBs should be encouraged to develop common criteria and practices in evaluation of the results of development projects.

The Social Summit: The World Summit for Social Development in March 1995, was an important step in signalling a reorientation of the Bank's approach to social support in development. At the Summit, the Bank announced plans to increase social sector lending by 50 per cent over the next three years. Some \$15 billion was committed over this period for basic social needs and a further \$5 billion for water supply and sanitation programs.

IDA 11 Negotiations: Throughout the year, Canada and other donors participated in the negotiations of the 11th Replenishment of the International Development Association (IDA 11). Negotiations concluded in Tokyo in March, 1996. (Further details are provided later in this report.)

Administrative Efficiency and Cost Effectiveness

Ensuring the efficiency and the effectiveness of the Bank's operations has long been a key objective of Canada. Canada, like many other donors facing fiscal restraint, expects institutions of which it is a member to follow fiscally responsible practices. Canada and other shareholders have been pleased by the Bank's response to these concerns; measures have been introduced to cut the Bank's administrative budget by more than 10 per cent in real terms over fiscal years 1996 and 1997.

But efficiency and effectiveness entail more than just budget-cutting. They require setting clear priorities and being more efficient and strategic in the delivery of services. The Bank needs to operate in those areas where its assistance is needed and where it has a clear comparative advantage. It needs to reconsider areas where the private sector or other MDBs may be better placed to provide assistance. Over the past year, the Bank has undertaken a major review of its activities and has taken steps to streamline its operations.

Managing Canada's Interests at the World Bank

The Minister of Finance, as Canada's Governor of the World Bank, is responsible for the management of Canada's interests at the Bank. The Minister exercises his influence through exchanges of views at the Development Committee and Annual Meetings and through periodic discussions with the President of the World Bank. For example, at the Annual Meetings in 1995, Governors had an open exchange of ideas on multilateral debt and IDA. The president of CIDA is Canada's Alternate Governor for the World Bank.

The day-to-day handling of Canada's diverse interests at the Bank is delegated by the Governor to the Executive Director, currently Mr. Len Good. Mr. Good is one of 24 Executive Directors; he represents Canada, and other countries (Ireland and eleven Caribbean countries) at the Executive Board. The Board is currently made up of 24 Executive Directors; 12 are from developing and 12 from developed countries.

One of the important functions played by Mr. Good is his oversight of the Bank's operations through his membership on the Committee on Development Effectiveness (CODE), which was established in 1994. The Committee's mandate is to assess the development effectiveness of Bank operations. CODE examines the full range of Bank operations, including most recently the Bank's efforts in support of financial sector reform and agricultural credit, non-lending services (economic analysis, technical assistance), and the restructuring of poorly performing projects in the African and Russian portfolios.

The Office of the Canadian Executive Director is one of eight members of CODE and also the chair of the CODE Sub-Committee, which examines project implementation in more detail. The Canadian office has actively participated in CODE with a view to understanding better the difficulties which Bank staff encounter in project implementation and the challenges facing staff in being responsive to the needs of locally affected communities in developing countries. Emerging from this effectiveness evaluation are changes in Bank procedures, and occasionally, in the Bank's general approach to project implementation.

Canada's Voting Record at the Board

Due to the consensus-seeking nature of the Executive Board, there is rarely an occasion when decisions are taken to a vote. Encouraging efforts to reach consensus among Board Members is of prime importance. Occasionally, however, matters are taken to a vote. Over the past year, Canada voted against three proposals: 1) a request for salary increases for Staff; 2) a request for salary increases for Executive Directors; and 3) an IFC proposal (to invest in Moody's Emerging Market Data Base) that had no incremental development benefits and where the bulk of activities would be outside developing countries.

While votes are rare, Canada and other shareholders do raise concerns and questions about the Bank's operations at the Board and even before issues are presented at the Board.

Canada's Office at the World Bank

In addition to the Executive Director, the office has two Canadian advisors and one assistant. These officers consult with the Canadian government – not only with the Department of Finance, but also with CIDA and the Department of Foreign Affairs and International Trade. Such consultations are the main way that Canada's policy advice is channelled to the Executive Director and through him to the World Bank.

One of the key roles of the office is to provide assistance to Canadian business people. While the Bank provides significant procurement opportunities, it is a large organization with an opaque structure that may be difficult for newcomers to navigate. One of Canada's advisors, along with the Canadian Embassy in Washington, assists in providing advice and information on how to do business with the Bank. (More details are provided below in the section on Procurement).

Another point of contact for Canada is the Bank's External Affairs Department. This Department has designated a person responsible for liaison with the governmental and NGO community in Canada. This person assists in providing information about the Bank and in bringing Bank personnel to Canada for seminars and presentations on key topics of mutual interest.

Structure of the Executive Director's Office

Executive Director: Mr. Len Good
Canadian Procurement Advisor: Mr. Greg Ebel/Mr. François Pagé
Canadian Advisor: Ms. Lesley Boucher
Canadian Assistant: Mr. Michael Jay
Telephone: (202) 458-0082; *facsimile:* (202) 477-4155
Address: D-12-081, 1818 H St. N.W. Washington, D.C. 20433 USA

Canadian Procurement at the World Bank

Canadian companies and individuals working in the area of international development often provide supplies, equipment or services to projects financed through the World Bank. Traditionally, Canadian expertise in the power, environmental, engineering, human resources, telecommunications, financial and transportation sectors has led to procurement opportunities for Canadian firms on developing country projects around the globe.

To date, Canadian companies and individuals have benefited from over U.S. \$3.0 billion in World Bank financed procurement (see Annex 4), which represents a cumulative return of about ninety cents to Canadians for each dollar contributed from the Canadian government's budget. For the Bank's fiscal year ending June 1995, disbursements to Canadian firms reached U.S. \$171 million, while new contract awards amounted to over U.S. \$ 110 million. Canada's performance in winning consulting contracts has been strong, ranking fourth overall and first on a per capita basis. As at other international financial institutions (IFIs), however, Canadian firms have been less successful at winning contracts for goods and equipment, which account for four-fifths of total disbursements.

Belief that Canada could do much better on procurement at the IFIs led to the creation of the Interdepartmental Task Force on IFI Procurement, with representation from Industry Canada, Canadian Commercial Corporation (CCC), CIDA, the Export Development Corporation, Foreign Affairs and International Trade Canada and the Department of Finance. This group's report, released in June 1995, outlined a strategy to enhance the competitiveness of Canadian firms bidding for IFI contracts.

One conclusion of that report was that CIDA might improve Canada's procurement results at the IFIs if more joint financing of projects were undertaken – in effect using a relatively small amount of Canadian money to “leverage” the much larger resources of the IFIs. An interdepartmental mission to Washington in April 1996 followed up on this recommendation and identified eight World Bank projects in Africa and Asia where CIDA will provide some \$55 million for cofinancing with the Bank.

The task of implementing the Task Force's recommendations has been assigned to the Capital Projects Action Team (CPAT), an interdepartmental group. As a result, government efforts to assist Canadian firms are now better co-ordinated. However, this initiative will only be counted a success if it leads to better results for Canadian firms in securing IFI procurement projects.

Trust Fund Activities

A significant source of funds to facilitate increased Canadian participation in World Bank projects are the consultant trust funds supported by CIDA and administered by the World Bank. These are used to introduce new Canadian consultants to the Bank, as well as to encourage the Bank to undertake activities in areas of priority to Canada. In June 1995, CIDA concluded a new agreement with the World Bank, the Cofinancing, Technical Assistance and Consultant Trust Fund Framework Agreement, to govern all its trust fund arrangements with the Bank. These funds lead directly to contracts for Canadians in the feasibility, assessment and design of development projects.

In 1995, CIDA replenished (with C\$19 million) and redesigned its Canadian Consultant Trust Fund (Country Specific), which supports Canadian consultants involved in the identification, preparation and implementation of bank-financed projects in 14 identified developing countries. CIDA and Environment Canada also negotiated the new Canadian Consultant Trust Fund for the Global Environment with the World Bank. For further information on these and other Canadian trust funds at the World Bank, please contact Mr. David Brown, Commercial Counsellor at the Canadian Embassy in Washington (telephone: (202) 682-7788; facsimile: (202) 682-7789).

Canadians can also access Bank funds through the Project Preparation Facility (PPF), the Global Environmental Facility (GEF), and the Policy and Human Resources Development Fund (PHRD).

Canadian Success Stories: Winning Contracts at the World Bank

- **Babcox and Wilcox (Canada)** will supply boilers and steam generation equipment for the Yan Zhou Power Project in the People's Republic of China, financed with World Bank support. The contract was awarded in December 1994, and has a total value of U.S. \$155 million.
- The vigorous efforts of the **Foundation Company of Canada Ltd**, of Toronto, Ontario, have paid off in an invitation to participate in a joint venture with Continental Construction of New Delhi in a major hydro-electric project along the Satluj river in India. The World Bank is financing U.S. \$437 million of this project.

International Finance Corporation

Canadian firms benefit from the Bank's private sector financing arm, the International Finance Corporation (IFC). For example, in 1995, Cameco of Saskatchewan and IMGold of Toronto were involved in projects in Kyrgyz Republic and Mali. Canadian banks also participated in IFC private sector projects through the IFC's loan syndication program. This program facilitates access to commercial debt financing for IFC-sponsored projects. A strong relationship is developing between the IFC and Canadian commercial banks.

Learning about opportunities

To further advance Canadian interests at the World Bank and to improve Canadians' understanding of available opportunities, Canada's Executive Director, along with World Bank staff and members of the other regional development banks, travelled across Canada in 1995, holding seminars on IFI procurement opportunities.

Canadian firms who are interested in winning World Bank financed contracts are urged to attend monthly business briefings (held on the first Thursday of each month) at Bank headquarters in Washington.

Both the Canadian Embassy in Washington, through the Office for Liaison with International Financial Institutions (OLIFI) (202-682-7788), and the Canadian Executive Director's Office at the World Bank (202-458-0082), work to assist Canadians and Canadian firms seeking to participate in World Bank-financed projects. The range of opportunities is wide – a power project in China, an environmental assessment in Peru, or a privatization initiative in Russia are examples. The OLIFI and the Canadian ED's Office at the World Bank encourage Canadian companies to contact them if they are interested in competing for procurement contracts.

Canada's Financial Participation

IBRD

Canada's share of the IBRD capital is approximately 3 per cent. A relatively small proportion of this capital contribution is required to be "paid in" – about 6 per cent overall, but just 3 per cent for the latest capital contributions. The remainder is "callable", in the unlikely event that the IBRD needs it from member countries. Periodically, the IBRD replenishes its capital through General Capital Increases (GCIs). The IBRD's last such capital increase (GCI III) was an amount of \$76.5 billion. Canada was allocated 19,655 new shares valued at \$2.37 billion. The paid-in portion of these shares is \$71.1 million. These shares were subscribed over a five-year period ending in 1993. As of June 30, 1995, Canada's cumulative subscriptions to the IBRD's capital stock was \$5,404 million (44,795 shares), of which \$335 million has been paid-in.

IDA

IDA provides financial assistance to the poorest developing countries on very favourable terms (long repayment periods and low interest rates) and, unlike the IBRD, is funded by grants from donors. The IDA 10 agreement reached in December 1992 resulted in a SDR 13 billion replenishment (U.S. \$18 billion). This will finance IDA's lending program over the three-year period to June 30, 1996. Canada committed to a share of 4.0 per cent of the replenishment, at a cost of C \$829 million. To meet these obligations, Canada issued three demand notes, one per year in 1993, 1994 and 1995. Each of these notes are then encashed over an eight-year period. To the end of fiscal year 1995, Canada's cumulative contributions to IDA (subscriptions and contributions) were the equivalent of U.S. \$3,979.5 million (including Special Fund contributions).

As noted earlier, in the section on Key Developments in 1995, Canada participated in negotiations for the IDA 11 replenishment which were concluded in March 1996. Total funding for IDA 11 will amount to about U.S. \$22 billion. Donor resources account for about U.S. \$11 billion of these resources, with the remainder coming from sources such as IDA 10 carry-over and credit repayments. Outstanding IDA 10 arrears made it impossible for the USA to contribute to the first year of a three-year funding package. Therefore, a one-year Interim Fund was arranged for IDA's fiscal year 1997, to which all donors but the USA will contribute. The USA is only able to commit to the two-year IDA 11 fund which will begin in fiscal year 1998. Canada is taking a 3.5 per cent share of the Interim Fund and a 3.75 per cent share of the two-year IDA 11.

IDA 11 Priorities

Rather than recommending new policy objectives, the IDA 11 negotiations focused more on ensuring that the Bank's policies of assistance to the poorest countries are more effectively implemented. The IDA 11 Agreement places particular emphasis on improving the quality of country assistance strategies, the Bank's major vehicle for determining the size and composition of lending programs targeted to specific countries. Three critical recommendations came out of the negotiations:

- *focus more on the impact of the Bank's operations, particularly on the poor, through the development of impact indicators;*
- *ensure sufficient resources continue to be available for the poorest countries, particularly those in Sub-Saharan Africa. However, underline that resources should be allocated first and foremost on the basis of performance;*
- *encourage greater beneficiary participation in the preparation of Country Assistance Strategies (CASs).*

A major Canadian priority in the IDA 11 negotiations was to ensure that significant resources continue to be directly targeted to the poor through IDA's Program for Targeted Interventions (PTI). IDA's lending for PTI has increased steadily over the IDA 10 period and was more than 50 per cent of total investment lending in fiscal year 1995. Canada was successful in convincing IDA to maintain the priority on PTI.

IFC

The IFC's most recent General Capital Increase was approved in May 1992. Under this GCI, Canada can subscribe to as many as 35,366 new shares, valued at \$35.4 million. Payments for these shares are made over a five-year period. As of June 30, 1995, Canada's cumulative subscription to the IFC amounted to \$67.2 million, all of which was paid in. This represents about 3.6 per cent of IFC's total capital.

MIGA

The Multilateral Investment Guarantee Agency (MIGA) was established in 1988 to encourage direct foreign investment in developing countries by protecting investors from certain non-commercial risks. Canada took up its subscription to MIGA's capital stock in 1988. Of the \$32.1 million subscription, \$6.4 million has been paid in, evenly divided between cash and demand notes. Canada's share of MIGA's capital is 2.7 per cent.

Future Challenges

The 50th anniversary of the Bretton Woods Institutions and the Halifax Summit in 1995 focused the world's attention on the issue of IFI reform, including reform of the World Bank. This review was not limited to donors and Northern Hemisphere NGOs and academics; borrowing member countries have their own concerns with and suggestions to improve the Bank's activities.

As the Bank continues its efforts over the next year to bring about change, it will be focusing on a number of areas of interest to Canada, including:

- Developing mechanisms to co-operate better with traditional and non-traditional partners, either other MDBs or borrowing members. One of the key components of President Wolfensohn's agenda for change is to reach out more to outside organizations, including NGOs, community groups, multilateral institutions and private foundations, in order to create a greater sense of ownership of the Bank's programs.
- Working towards becoming more results oriented, through understanding better the impact of Bank operations on the ground. The Bank is in the process of developing impact indicators and has recently joined an informal working group with other MDBs to come to an understanding on common evaluation methodologies.
- Exploring options for helping countries in post-conflict situations regain their hope and dignity through reconstruction, technical assistance and other forms of support. Such post-conflict countries are in dire need of assistance, particularly in the area of reabsorbing previous combatants in the civilian work force and in creating new jobs. There is also a need to reconstitute social services and build (or rebuild) social safety nets.
- Finding ways to work in a climate of increasingly scarce concessional resources. The recently concluded IDA 11 negotiations shows that donors are no longer able to provide continually increasing concessional resources. Priority in the use of concessional resources will have to be given to those countries most in need that do not have access to private capital.
- Responding to the special challenges posed by such issues as multilateral debt (see below). Canada and other donors recognize that a number of the poorest countries' debt burdens make it difficult for them to move to a path of longer-term sustainable development.

JOINT ISSUES

Overview

As the previous sections have demonstrated, the IMF and the World Bank are important institutions for Canada, each playing a unique role in the international economic and financial system. It can be interesting to examine these two institutions (sometimes referred to as the “Bretton Woods sisters”) jointly, since so many of their activities are complementary. This was the case with the “Graham Report”, discussed below, prepared by the House of Commons Standing Committee on Foreign Affairs and International Trade.

In addition, there are areas where the mandates of the two Bretton Woods institutions overlap, or where there is a requirement for close co-operation and co-ordination of activities. Indeed, at the Halifax Summit, G-7 leaders asked that efforts be made to increase co-operation and co-ordination between the IMF and the World Bank. The heads of both institutions have put considerable effort into fulfilling that objective. Two particular examples, the joint preparation of a proposed program of assistance for highly indebted poor countries and co-operation in post-conflict situations are examined below.

The “Graham Report”

In the run-up to the G-7 Summit in Halifax, the Standing Committee on Foreign Affairs and International Trade, chaired by Bill Graham, issued a report on international financial institution (IFI) reform entitled *From Bretton Woods to Halifax and Beyond: Towards a 21st Summit for the 21st Century Challenge*.

The report contained a number of recommendations setting out priority objectives for:

- redefining essential future roles for the Bretton Woods institutions and making them as efficient and democratically accountable as possible;
- reforming policies and practices to improve the effectiveness of the institutions in reducing global poverty and supporting sustainable development; and
- reviewing ways to increase stability in international capital and currency markets.

The following October, the Ministers of Finance and Foreign Affairs tabled the Government's Response in Parliament. It noted that the general thrust of the Committee's recommendations was consistent with the direction that Canada and other G-7 countries have been urging the Bretton Woods institutions to take. The Halifax Summit, for its part, provided the G-7 an opportunity to energize a number of items on the IFI reform agenda.

More specifically, the Response built on the Prime Minister's assertion that the Bretton Woods Institutions "have evolved in a positive way over the years and adapted to the new international realities". This judgement was echoed at Halifax by G-7 leaders in the assertion that the "international financial institutions have demonstrated an exceptional degree of flexibility in adapting to changing demands". Nevertheless, G-7 leaders at Halifax also noted that "a number of areas remain where improvements are both possible and desirable".

This suggested the need not for a major overhaul of the Bretton Woods system, but for a refocusing of a number of activities and a strengthening of others. In effect, while the Bretton Woods Institutions were not perfect, they worked well together and, with some necessary course adjustments, could meet the challenges of the evolving global economy. It was within this framework that the Government's Response to the SCFAIT Report described Canada's efforts in the pursuit of IFI reform.

Copies of the Government's Response can be obtained by contacting the International Finance and Economic Analysis Division of the Department of Finance at (613) 943-1643.

Post-Conflict Situations

At the Halifax Summit, G-7 leaders called for the "Bretton Woods institutions and the UN to establish a new co-ordination procedure, supported as necessary by existing resources, to facilitate a smooth transition from the emergency to the rehabilitation phase of a crisis, and to co-operate more effectively with donor countries".

This action was intended to facilitate the provision of assistance to countries emerging from political turmoil, civil unrest, or international armed conflict. While humanitarian assistance is often available during periods of conflict, a gap has been identified in the provision of assistance after the cessation of hostilities and before adequate infrastructure is in place to permit regular lending through the IFIs.

In September 1995, the IMF adopted a proposal to broaden the scope of its policy on emergency assistance to include post-conflict situations. This proposal identified the Fund's comparative advantage to be the provision of technical assistance and policy advice to post-conflict countries such as Bosnia and Herzegovina, in the establishment of a sound macroeconomic framework. Such efforts, by restoring economic stability, could act as a catalyst for greater and more effective assistance from other sources. Further, while technical assistance and policy advice would form the basis of IMF support, there is potential for the Fund to provide limited financial assistance from its General Resources as a precursor to the establishment of a formal IMF program.

At the World Bank, a proposal for a "Post-Conflict Trust Fund" was considered in January 1996 along with a proposal for the provision of \$150 million in emergency reconstruction financing for Bosnia and Herzegovina. Special efforts were made to find financing support to clear Bosnia's "arrears" to the World Bank (actually its share of the arrears of the former Yugoslavia) so that Bosnia could become a member of the World Bank. While this World Bank assistance to Bosnia and Herzegovina was agreed, the creation of a "Post-Conflict Trust Fund" was delayed pending further analysis by staff on administrative and financing issues. The Executive Board will consider a subsequent proposal later this year.

The World Bank has, in addition, played a leading role, along with the European Union, in bringing together a wide range of donors to create the necessary financing for reconstruction of Bosnia and Herzegovina. The World Bank has drawn up plans for civilian reconstruction and has taken a leading role in reconstruction efforts on the ground.

Assistance to Heavily Indebted Poor Countries

The debt problems, including debt owed to multilateral institutions such as the World Bank ("multilateral debt"), of heavily indebted poor countries became a major item on the international financial agenda in 1995.

Following a request by the Interim and Development Committees in October 1994, the Executive Boards of both the World Bank and IMF began a review of the "special needs and problems of ... the poorest, most indebted countries". By early spring 1995, the Bank and Fund had prepared a series of papers on the multilateral debt burden of the most heavily indebted poor countries (HIPC) which concluded that:

- while there was no generalized multilateral debt problem, a number of HIPC) faced significant or potential multilateral debt-servicing problems; and
- these problems needed to be addressed on a case-by-case basis with an enlarged menu of instruments to meet specific country needs.

Existing Mechanisms for Assisting Heavily Indebted Poor Countries

From the World Bank

Regular Lending Through the International Development Association (IDA): *IDA credits are on highly concessional terms, generally with 40-year maturities and 10 years grace;*

Exceptional IDA allocations: *for countries engaged in arrears clearance and comprehensive debt workouts;*

The Fifth Dimension: *supplemental IDA allocations to low-income countries with outstanding IBRD (i.e. non-concessional World Bank) debt that are current on debt service to the World Bank and have IDA-sponsored economic reform programs;*

IDA-Only Debt Reduction Facility: *Financed by IBRD net income and bilateral contributions, the DRF provides grant funding to low-income countries to assist in reduction of medium- and long-term commercial debt that is public, external, non-collateralised and unguaranteed; and*

Technical assistance: *for debt management.*

From the International Monetary Fund

IMF surveillance, technical assistance and programs: *These are prerequisites for official bilateral debt reduction through the Paris Club; and*

Enhanced Structural Adjustment Facility (ESAF): *The Fund's major source of concessional financing for low-income countries undertaking economic reform in the context of an IMF program.*

The Halifax Summit further raised the profile of the issue and gave important impetus to efforts in the Bretton Woods institutions to address the special needs of HIPC's. In particular, G-7 leaders took the opportunity to voice concern about the multilateral debt burden of a number of heavily indebted poor countries and called for:

- the Bretton Woods institutions to develop a comprehensive approach to assist countries with multilateral debt problems through the flexible implementation of existing instruments and new mechanisms where necessary; and
- better use of all World Bank and IMF resources, adoption of appropriate measures in the MDBs and continuation of concessional ESAF lending operations.

Working together, the Bretton Woods institutions responded to this request in the subsequent months, committing themselves at the October 1995 Annual Meetings to the joint preparation of a “comprehensive strategy” to address the problems of HIPC’s for presentation to Governors at the Spring Meetings of the IMF and World Bank in April 1996.

At the Spring Meetings, Governors were presented with proposals prepared jointly by the IMF and World Bank. They endorsed a basic framework for dealing with the debt problems of heavily indebted poor countries. The details of this general framework, however, are still being developed. Governors will be presented with a more detailed plan at the Annual Meetings this fall.

ANNEX 1

Active IMF Lending Arrangements – As of December 31, 1995

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
(million SDRs)				
Stand-by arrangements				
Armenia	June 28, 1995	June 27, 1996	20,356.98	6,143.00
Azerbaijan	June 28, 1995	June 27, 1996	43.88	30.38
Belarus	Nov. 17, 1995	Nov. 16, 1996	58.50	49.14
Belarus	Sept. 12, 1995	Sept. 11, 1996	196.28	146.28
Cameroon	Sept. 27, 1995	Sept. 26, 1996	67.60	59.10
Costa Rica	Nov. 29, 1995	Feb. 28, 1997	52.00	52.00
Croatia	Oct. 14, 1994	Apr. 13, 1996	65.40	52.32
El Salvador	July 21, 1995	Sept. 20, 1996	37.68	37.68
Estonia	Apr. 11, 1995	July 10, 1996	13.95	13.95
Georgia	June 28, 1995	June 27, 1996	72.15	49.95
Haiti	Mar. 8, 1995	Mar. 7, 1996	20.00	3.60
Kazakhstan	June 5, 1995	June 4, 1996	185.60	92.78
Latvia	April 21, 1995	May 20, 1996	27.45	27.45
Lesotho	July 31, 1995	July 30, 1996	7.17	7.17
Macedonia, FYR	May 5, 1995	June 4, 1996	22.30	9.90
Mexico	Feb. 1, 1995	Aug. 15, 1996	12,070.20	3,312.18
Moldova	Mar. 22, 1995	Mar. 21, 1996	58.50	26.10
Pakistan	Dec. 13, 1995	Mar. 31, 1997	401.85	267.90
Panama	Nov. 29, 1995	Mar. 31, 1997	69.80	61.10
Papua New Guinea	July 14, 1995	Jan. 13, 1997	71.48	38.14
Poland	Aug. 5, 1994	Mar. 4, 1996	333.30	50.00
Romania	May 11, 1994	Apr. 24, 1997	320.50	226.23
Russia	April 11, 1995	Apr. 10, 1996	4313.10	718.85
Slovak Republic	July 22, 1995	Mar. 21, 1996	115.80	83.65
Turkey	July 8, 1994	Mar. 7, 1996	610.50	150.00
Ukraine	April 7, 1995	Apr. 7, 1996	997.30	458.65
Uzbekistan	Dec. 18, 1995	Mar. 17, 1997	124.70	118.50
EFF arrangements				
Algeria	May 22, 1995	May 21, 1998	7,625.65	2,640.12
Argentina	Mar. 31, 1992	Mar. 30, 1996	1,169.28	928.48
Egypt	Sept. 30, 1993	Sept. 19, 1996	4,020.25	256.18
Gabon	Nov. 8, 1995	Nov. 7, 1998	400.00	400.00
Jamaica	Nov. 8, 1995	Nov. 7, 1998	110.30	88.24
Jamaica	Dec. 11, 1992	Feb. 24, 1996	109.13	22.38
Jordan	May 25, 1994	May 24, 1997	189.30	58.98
Lithuania	Oct. 24, 1994	Oct. 23, 1997	134.55	72.45
Peru	Mar. 18, 1993	Mar. 17, 1996	1,018.10	375.41
Philippines	June 24, 1994	June 23, 1997	474.50	438.00

Active IMF Lending Arrangements – As of December 31, 1995 (Cont'd)

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
(million SDRs)				
SAF arrangements			181.75	–
Zambia	Dec. 6, 1995	Dec. 15, 1996	181.75	–
ESAF arrangements			2,995.5	1,203.67
Albania	July 14, 1993	Jul. 13, 1996	42.36	11.30
Benin	Jan. 25, 1993	Jan. 24, 1996	51.89	9.06
Bolivia	Dec. 19, 1994	Dec. 18, 1997	100.96	67.31
Burkina Faso	Mar. 31, 1993	Mar. 30, 1996	53.04	8.84
Cambodia	May 6, 1994	May 5, 1997	84.00	42.00
Chad	Sept. 1, 1995	Aug. 31, 1998	49.56	41.30
Cote d'Ivoire	Mar. 11, 1994	Mar. 20, 1997	333.48	95.28
Equatorial Guinea	Feb. 3, 1993	Feb. 2, 1996	12.88	8.28
Ghana	June 30, 1995	June 29, 1998	164.40	137.00
Guinea	Nov. 6, 1991	Nov. 5, 1996	57.90	11.58
Guinea-Bissau	Jan. 18, 1995	Jan. 17, 1998	9.45	7.88
Guyana	July 20, 1994	July 19, 1997	53.76	35.84
Honduras	July 24, 1992	July 24, 1997	47.46	13.56
Kyrgyz Republic	July 20, 1994	July 19, 1997	88.15	48.38
Lao P.D. R.	June 4, 1993	June 3, 1996	35.19	11.73
Malawi	Oct. 18, 1995	Oct. 17, 1998	45.81	38.18
Mali	Aug. 28, 1992	Mar. 31, 1996	79.24	–
Mauritania	Jan. 25, 1995	Jan. 24, 1998	42.75	28.50
Mongolia	June 25, 1993	June 24, 1996	40.81	16.70
Nicaragua	June 24, 1994	June 23, 1997	120.12	100.10
Senegal	Aug. 29, 1994	Aug. 28, 1997	130.79	59.45
Sierra Leone	Mar. 28, 1994	Mar. 27, 1997	101.90	20.29
Togo	Sept. 16, 1994	Sept. 15, 1997	65.16	32.58
Uganda	Sept. 6, 1994	Sept. 5, 1997	120.51	66.95
Vietnam	Nov. 11, 1994	Nov. 10, 1997	362.40	241.60
Zambia	Dec. 6, 1995	Dec. 5, 1998	701.68	50.00
Total			31,159.79	9,986.79

ANNEX 2

World Bank Loans and IDA Credits – Fiscal Year 1995 (July 1, 1994 - June 30, 1995)

	World Bank	IDA	Total	
	Amount	Amount	No.	Amount
(millions of U.S. dollars)				
By area				
Africa	80.7	2,203.6	58	2,284.3
East Asia and Pacific	4,592.6	1,101.2	42	5,693.8
South Asia	1,584.8	1,420.9	18	3,005.7
Europe and Central Asia	3,953.8	545.0	58	4,498.8
Latin America & the Caribbean	5,715.3	345.2	52	6,060.5
Middle East & North Africa	925.4	53.3	14	978.7
Total	16,852.6	5,669.2	242	22,521.8
By purpose				
Agriculture and Rural Development	1,153.9	1,495.4	816.2	2,649.3
Education	1,280.6			2,096.8
Energy	2264.0	580.6		2,844.6
Environment	444.1	40.5		484.6
Financial Sector	2,435.4	129.3		2,564.7
Industry	175.0	56.2		231.2
Mining	–	24.8		24.8
Multisector	2,295.0	870.5		3,165.5
Population, Health & Nutrition	451.3	711.0		1,162.3
Public Sector Management	1,411.2	294.4		1,705.6
Social Sector	596.5	51.0		647.5
Telecommunications	325.0	–		325.0
Tourism	–	–		–
Transportation	2,026.8	104.1		2,130.9
Urban Development	1,263.5	186.0		1,449.5
Water Supply and Sewerage	730.3	309.2		1,030.5
Total	16,852.6	5,669.2		22,521.8

ANNEX 3

World Bank Loans and IDA Credits to Developing Countries

	World Bank		IDA		Total	
	No.	Amount	No.	Amount	No.	Amount
(millions of U.S. dollars)						
By Fiscal Year¹						
Cumulative to 1968	549	11,418.1	116	1,831.8	665	13,249.9
Total 1969-1973	374	8,917.8	273	3,931.6	647	12,849.4
Total 1974-1978	666	24,372.3	376	7,947.4	1,042	32,319.7
Total 1979-1983	711	44,908.0	518	16,368.1	1,229	61,276.1
1983-1984	129	11,947.2	106	3,575.0	235	15,522.2
1984-1985	131	11,356.3	105	3,028.1	236	14,384.4
1985-1986	131	13,178.8	97	3,139.9	228	16,318.7
1986-1987	127	14,188.2	108	3,485.8	235	17,674.0
1987-1988	118	14,762.0	99	4,458.7	217	19,220.7
1988-1989	119	16,433.2	106	4,933.6	225	21,366.8
1989-1990	121	15,179.7	101	5,522.0	222	20,701.7
1990-1991	126	16,392.2	103	6,293.3	229	22,685.5
1991-1992	112	15,156.0	110	6,549.7	222	21,705.7
1992-1993	122	16,944.5	123	6,751.4	245	23,695.9
1993-1994	124	14,243.9	104	6,592.1	228	20,836.0
1994-1995	134	16,852.6	108	5,699.2	242	22,521.8
Total	3,794	266,250.6	2,553	90,077.9	6,347	356,328.5

¹ Fiscal years are those of the World Bank Group (July 1 to June 30).

ANNEX 4

Disbursements by the World Bank and IDA Borrowers – Goods and Services from Canada – to June 30, 1995

	World Bank	IDA	Total
	Amount	Amount	Amount
(millions of U.S. dollars)			
By calendar year			
Cumulative to December 1960	133.5		133.5
1961	8.2	–	8.2
1962	3.7	–	3.7
1963	5.6	7.4	13.0
1964	4.7	1.8	6.5
1965	5.4	2.7	8.1
1966	11.6	5.3	16.9
1967	13.2	14.7	27.9
1968	6.3	7.8	14.1
1969	4.4	11.0	15.4
1970	7.6	1.3	8.9
1971	11.1	2.2	13.3
1972	10.5	2.3	12.8
1973	12.4	5.1	17.5
1974	15.8	8.4	24.2
1975	22.1	15.0	37.1
1976	25.7	10.8	36.5
1977	34.5	4.8	39.3
1978	26.1	5.5	31.6
1979	44.4	8.1	52.5
1980	51.5	7.8	59.3
1981	94.3	14.5	108.8
1982	75.0	17.6	92.6
1983	82.3	26.9	109.2
1984	92.6	54.3	146.9
1985	94.3	39.7	134.0
1986	184.8	46.8	231.6
1987 (Jan.-June)	92.8	23.4	116.2
1988 FY 1988 (to June 30, 1988)	182.1	47.4	229.5
FY 1989	197.0	45.0	242.0
FY 1990	164.0	41.0	205.0
FY 1991	139.0	34.0	173.0
FY 1992	131.0	38.0	169.0
FY 1993	151.0	41.0	192.0
FY 1994	115.0	69.0	184.0
FY 1995	123.0	48.0	171.0
Total	2,315.0	694.0	3,009.0
Per cent of total disbursements	2.28	1.79	2.14
Per cent of FY 1995 disbursements	2.09	1.49	1.88

ANNEXE 4

Dépenses des emprunteurs de la Banque mondiale et de l'AID -
Biens et services canadiens au 30 juin 1995

Total	Banque mondiale		AID	Total
	Montant	Montant		

(en millions de \$ É.-U.)

133,5	133,5			
1961	8,2	-	-	8,2
1962	3,7	-	-	3,7
1963	5,6	7,4	13,0	13,0
1964	4,7	1,8	6,5	6,5
1965	5,4	2,7	8,1	8,1
1966	11,6	5,3	16,9	16,9
1967	13,2	14,7	27,9	27,9
1968	6,3	7,8	14,1	14,1
1969	4,4	11,0	15,4	15,4
1970	7,6	1,3	8,9	8,9
1971	11,1	2,2	13,3	13,3
1972	10,5	2,3	12,8	12,8
1973	12,4	5,1	17,5	17,5
1974	15,8	8,4	24,2	24,2
1975	22,1	15,0	37,1	37,1
1976	25,7	10,8	36,5	36,5
1977	34,5	4,8	39,3	39,3
1978	26,1	5,5	31,6	31,6
1979	44,4	8,1	52,5	52,5
1980	51,5	7,8	59,3	59,3
1981	94,3	14,5	108,8	108,8
1982	75,0	17,6	92,6	92,6
1983	82,3	26,9	109,2	109,2
1984	92,6	54,3	146,9	146,9
1985	94,3	39,7	134,0	134,0
1986	184,8	46,8	231,6	231,6
1987 (Janv. - juin)				
1988 Ex. 1988 (au 30 juin 1988)	182,1	47,4	229,5	229,5
Ex. 1989	197,0	45,0	242,0	242,0
Ex. 1990	164,0	41,0	205,0	205,0
Ex. 1991	139,0	34,0	173,0	173,0
Ex. 1992	131,0	38,0	169,0	169,0
Ex. 1993	151,0	41,0	192,0	192,0
Ex. 1994	115,0	69,0	184,0	184,0
Ex. 1995	123,0	48,0	171,0	171,0
Total	2,315,0	694,0	3,009,0	
Pourcentage du total des dépenses				
	2,28	1,79	2,14	
Pourcentage des dépenses				
	2,09	1,49	1,88	
de l'exercice 1995				

ANNEXE 3

Prêts de la Banque mondiale et crédits de l'AID aux pays en développement

Banque Mondiale		AID		Total	
Nombre	Montant	Nombre	Montant	Nombre	Montant

(millions de \$ E.-U.)

Par exercice ¹					
Jusqu'en 1968	549	11,418,1	116	1,831,8	665
Total 1969-1973	374	8,917,8	273	3,931,6	647
Total 1974-1978	666	24,372,3	376	7,947,4	1,042
Total 1979-1983	711	44,908,0	518	16,368,1	1,229
1983-1984	129	11,947,2	106	3,575,0	235
1984-1985	131	11,356,3	105	3,028,1	236
1985-1986	131	13,178,8	97	3,139,9	228
1986-1987	127	14,188,2	108	3,485,8	235
1987-1988	118	14,762,0	99	4,458,7	217
1988-1989	119	16,433,2	106	4,933,6	225
1989-1990	121	15,179,7	101	5,522,0	222
1990-1991	126	16,392,2	103	6,293,3	229
1991-1992	112	15,156,0	110	6,549,7	222
1992-1993	122	16,944,5	123	6,751,4	245
1993-1994	124	14,243,9	104	6,592,1	228
1994-1995	134	16,852,6	108	5,699,2	242
Total	3,794	266,250,6	2,553	90,077,9	6,347
					356,328,5

¹ Exercices financiers du Groupe de la Banque mondiale (1^{er} juillet au 30 juin).

ANNEXE 2

Prêts de la Banque mondiale et crédits de l'AID - Exercice 1995 (1^{er} juillet 1994 au 30 juin 1995)

Par région	Banque Mondiale			AID	(millions de \$ E.-U.)	
	Montant	Montant	Nombre	Montant	Total	Montant
Afrique	80,7	2,203,6	58	2,284,3		
Asie de l'est et Pacifique	4,592,6	1,101,2	42	5,693,8		
Asie du Sud	1,584,8	1,420,9	18	3,005,7		
Europe et Asie centrale	3,953,8	545,0	58	4,498,8		
Amérique latine et Caraïbes	5,715,3	345,2	52	6,060,5		
Moyen-Orient et Afrique du Nord	925,4	53,3	14	978,7		
Total	16,852,6	5,669,2	242	22,521,8		
Par objet						
Agriculture et développement rural	1,153,9	1,495,4		2,649,3		
Éducation	1,280,6		816,2	2,096,8		
Énergie	2264,0	580,6		2,844,6		
Environnement	444,1	40,5		484,6		
Secteur financier	2,435,4	129,3		2,564,7		
Industrie	175,0	56,2		231,2		
Mines	-	24,8		24,8		
Secteurs divers	2,295,0	870,5		3,165,5		
Démographie, santé et nutrition	451,3	711,0		1,162,3		
Gestion du secteur public	1,411,2	294,4		1,705,6		
Secteur social	596,5	51,0		647,5		
Télécommunications	325,0	-		325,0		
Tourisme	-	-		-		
Transports	2,026,8	104,1		2,130,9		
Développement urbain	1,263,5	186,0		1,449,5		
Adduction d'eau et hygiène	730,3	309,2		1,030,5		
Total	16,852,6	5,669,2		22,521,8		

Accords de prêt du FMI en vigueur au 31 décembre 1995 (suite)

Membre	Date de l'accord	Échéance	Montant approuvé	Solde inutilisé
Accords de FAS				
Zambie	6 déc. 1995	15 déc. 1996	181,75	-
Accords de FASR				
Albanie	14 juill. 1993	13 juill. 1996	42,36	11,30
Bénin	25 janv. 1993	24 janv. 1996	51,89	9,06
Bolivie	19 déc. 1994	18 déc. 1997	100,96	67,31
Burkina Faso	31 mars 1993	30 mars 1996	53,04	8,84
Cambodge	6 mai 1994	5 mai 1997	84,00	42,00
Tchad	1 ^{er} sept. 1995	31 août 1998	49,56	41,30
Côte d'Ivoire	11 mars 1994	20 mars 1997	333,48	95,28
Guinée équatoriale	3 févr. 1993	2 févr. 1996	12,88	8,28
Ghana	30 juin 1995	29 juin 1998	164,40	137,00
Guinée	6 nov. 1991	5 nov. 1996	57,90	11,58
Guinée-Bissau	18 janv. 1995	17 janv. 1998	9,45	7,88
Guyane	20 juill. 1994	19 juill. 1997	53,76	35,84
Honduras	24 juill. 1992	24 juill. 1997	47,46	13,56
République kirghize	20 juill. 1994	19 juill. 1997	88,15	48,38
RPD lao	4 juin 1993	3 juin 1996	35,19	11,73
Malawi	18 oct. 1995	17 oct. 1998	45,81	38,18
Mali	28 août 1992	31 mars 1996	79,24	-
Mauritanie	25 janv. 1995	24 janv. 1998	42,75	28,50
Mongolie	25 juin 1993	24 juin 1996	40,81	16,70
Nicaragua	24 juin 1994	23 juin 1997	120,12	100,10
Sénégal	29 août 1994	28 août 1997	130,79	59,45
Sierra Leone	28 mars 1994	27 mars 1997	101,90	20,29
Togo	16 sept. 1994	15 sept. 1997	65,16	32,58
Ouganda	6 sept. 1994	5 sept. 1997	120,51	66,95
Viet Nam	11 nov. 1994	10 nov. 1997	362,40	241,60
Zambie	6 déc. 1995	5 déc. 1998	701,68	50,00
Total			31,159,79	9,986,79

(en millions de DTS)

ANNEXE I

Accords de prêt du FMI en vigueur au 31 décembre 1995

Membre	Date de l'accord	Échéance	Montant approuvé	Solde inutilisé
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Accords de confirmation				
Arménie	28 juin 1995	27 juin 1996	43,88	30,38
Azerbaïdjan	17 nov. 1995	16 nov. 1996	58,50	49,14
Belarus	12 sept. 1995	11 sept. 1996	196,28	146,28
Cameroon	27 sept. 1995	26 sept. 1996	67,60	59,10
Costa Rica	29 nov. 1995	28 févr. 1997	52,00	52,00
Croatia	14 oct. 1994	13 avr. 1996	65,40	52,32
El Salvador	21 juill. 1995	20 sept. 1996	37,68	37,68
Estonie	11 avr. 1995	10 juill. 1996	13,95	13,95
Géorgie	28 juin 1995	27 juin 1996	72,15	49,95
Haïti	8 mars 1995	7 mars 1996	20,00	3,60
Kazakhstan	5 juin 1995	4 juin 1996	185,60	92,78
Lettonie	21 avr. 1995	20 mai 1996	27,45	27,45
Lesotho	31 juill. 1995	30 juill. 1996	7,17	7,17
ARY de Macédoine	5 mai 1995	4 juin 1996	22,30	9,90
Mexique	1 ^{er} févr. 1995	15 août 1996	12,070,20	3,312,18
Moldova	22 mars 1995	21 mars 1996	58,50	26,10
Pakistan	13 déc. 1995	31 mars 1997	401,85	267,90
Panama	29 nov. 1995	31 mars 1997	69,80	61,10
Papouasie-Nouvelle-Guinée	14 juill. 1995	13 janv. 1997	71,48	38,14
Pologne	5 août 1994	4 mars 1996	333,30	50,00
Roumanie	11 mai 1994	24 avr. 1997	320,50	226,23
Russie	11 avr. 1995	10 avr. 1996	4313,10	718,85
République slovaque	22 juill. 1995	21 mars 1996	115,80	83,65
Turquie	8 juill. 1994	7 mars 1996	610,50	150,00
Ukraine	7 avr. 1995	7 avr. 1996	997,30	458,65
Ouzbékistan	18 déc. 1995	17 mars 1997	124,70	118,50
Accords de MEDC				
Algérie	22 mai 1995	21 mai 1998	1,169,28	928,48
Argentine	31 mars 1992	30 mars 1996	4,020,25	256,18
Égypte	30 sept. 1993	19 sept. 1996	400,00	400,00
Gabon	8 nov. 1995	7 nov. 1998	110,30	88,24
Jamaïque	11 déc. 1992	24 févr. 1996	109,13	22,38
Jordanie	25 mai 1994	24 mai 1997	189,30	58,98
Lituanie	24 oct. 1994	23 oct. 1997	134,55	72,45
Pérou	18 mars 1993	17 mars 1996	1,018,10	375,41
Philippines	24 juin 1994	23 juin 1997	474,50	438,00

(en millions de DTS)

- que l'on utilise plus judicieusement les ressources de la Banque mondiale et du FMI, que les BMD adoptent des mesures appropriées et que l'on poursuive l'octroi de prêts concessionnels dans le cadre de la FASR.
- Travaillant de concert, les institutions issues des accords de Bretton Woods ont donné suite à cette requête dans les mois qui ont suivi. Lors des assises annuelles d'octobre 1995, elles ont pris l'engagement d'élaborer une stratégie détaillée pour s'attaquer aux problèmes des PLE, stratégie devant être présentée aux gouverneurs à l'assemblée annuelle du FMI et de la Banque mondiale en avril 1996.
- À cette occasion, les gouverneurs ont reçu les propositions conjointes du FMI et de la Banque mondiale. Ils ont approuvé un cadre de base pour composer avec les problèmes d'endettement des PLE. Les détails de ce cadre général n'ont pas encore été arrêtés. Les gouverneurs recevront un plan plus élaboré lors de l'assemblée annuelle de cet automne.

Mécanismes existants d'aide aux pays pauvres lourdement endettés

Banque mondiale

Prêts courants par le biais de l'Association internationale de développement (AID) : L'AID offre des crédits à des conditions très avantageuses, habituellement pour des périodes de 40 ans auxquelles s'ajoute une période de grâce de 10 ans;

Allocations exceptionnelles de l'AID pour les pays qui tentent d'éliminer leurs arriérés et qui participent à des mécanismes élaborés de remboursement de la dette;

La cinquième dimension : Allocation supplémentaire de l'AID pour les pays à faibles revenus débiteurs de la BIRD (prêts non concessionnels de la Banque mondiale) qui remboursent actuellement leur dette envers la Banque et appliquent des réformes économiques parrainées par l'AID;

Mécanisme de réduction de la dette (MRD) exclusif à l'AID : Financé par le revenu net de la BIRD et des contributions bilatérales, le MRD offre des subventions aux pays à faibles revenus pour les aider à réduire leur dette commerciale publique extérieure à moyen et à long terme qui n'est pas garantie;

Aide technique pour la gestion de la dette.

Fonds monétaire international

Surveillance, aide technique et programmes du FMI : Ces mesures sont nécessaires pour permettre la réduction de la dette bilatérale officielle par l'entremise du Club de Paris;

Facilité d'ajustement structurel renforcée (FASR) : Il s'agit de la principale source de financement concessionnel pour les pays à faibles revenus qui entreprennent des réformes économiques dans le cadre d'un programme du FMI.

- aux institutions issues des accords de Bretton Woods de développer une approche globale pour venir en aide aux pays ayant des problèmes de dette multilatérale en appliquant avec souplesse les mécanismes existants et en établissant d'autres facilités au besoin;
- Le Sommet de Halifax a également fait ressortir et a nettement stimulé les efforts des institutions issues des accords de Bretton Woods pour répondre aux besoins spécifiques des PPLE. Plus particulièrement, les dirigeants du G-7 en ont profité pour exprimer leur inquiétude à propos de l'ampleur de la dette multilatérale de certains PPLE et ont demandé :

prestation d'une aide technique et de conseils stratégiques aux pays sortant d'une crise, comme la Bosnie-Herzégovine, en vue d'établir un cadre macro-économique sain. En rétablissant la stabilité économique, ces efforts pourraient faire fonction de catalyseur pour accroître l'aide provenant d'autres sources et la rendre plus efficace. En outre, même si l'aide technique et les conseils stratégiques constituaient la base du soutien du FMI, il est possible que le Fonds offrirait une aide financière limitée à partir de ses ressources générales avant l'établissement d'un programme officiel.

La Banque mondiale a étudié une proposition de «Compte fiduciaire après-conflit» en janvier 1996, ainsi qu'un projet de versement d'une aide financière d'urgence pour la reconstruction d'une valeur de 150 millions \$ pour la Bosnie-Herzégovine. Des efforts spéciaux ont été déployés pour trouver un appui financier afin d'éliminer les arriérés de la Bosnie après de la Banque mondiale (en fait, sa part des arriérés de l'ex-Yougoslavie) pour lui permettre d'adhérer à la Banque mondiale. Même si cette aide de la Banque à la Bosnie-Herzégovine a été approuvée, la création du compte fiduciaire après-conflits a été retardée jusqu'à ce que l'on ait pu étudier de plus près les modalités administratives et financières de ce projet. Le Conseil des administrateurs examinera une proposition remaniée plus tard cette année. En outre, la Banque mondiale a joué un rôle de premier plan, de concert avec l'Union européenne, pour mobiliser un grand nombre de donateurs pour financer adéquatement la reconstruction de la Bosnie-Herzégovine. La Banque a établi les plans de la reconstruction des installations civiles et elle a pris l'initiative des travaux sur le terrain.

L'aide aux pays pauvres lourdement endettés

Les problèmes d'endettement des pays pauvres lourdement endettés, notamment envers des institutions multilatérales comme la Banque mondiale («dette multilatérale») ont pris beaucoup de place sur la scène financière internationale en 1995. Le Comité interimaire et le Comité du développement en ayant fait la demande en octobre 1994, les Conseils d'administration de la Banque mondiale et du FMI ont amorcé l'examen des besoins et des problèmes particuliers des pays les plus pauvres et les plus lourdement endettés. Dès le début de l'automne 1995, la Banque et le Fonds avaient préparé une série de documents sur la dette multilatérale des pays pauvres les plus lourdement endettés (PPLE), dans lesquels on peut lire les conclusions suivantes :

- même si les problèmes d'endettement multilatéral ne sont pas généralisés, certains PPLE sont aux prises avec d'importants problèmes de service de cette dette, ou pourraient l'être;
- ces problèmes doivent être réglés au cas par cas à l'aide d'une gamme étendue de mécanismes afin de répondre aux besoins particuliers des différents pays.

- examiner des façons d'accroître la stabilité des marchés internationaux de capitaux et de devises.

Dès le mois d'octobre suivant, les ministres des Affaires étrangères ont déposé la réponse du gouvernement à ce rapport devant le Parlement. Cette réponse note que les grandes orientations des recommandations du Comité rejoignent celles que le Canada et les autres pays du G-7 ont pressé les institutions issues des accords de Bretton Woods de suivre. Par ailleurs, le Sommet de Halifax a permis aux membres du G-7 de donner suite à certains éléments du programme de réforme des IFI.

Plus particulièrement, la réponse s'appuyait sur l'affirmation du Premier ministre, selon laquelle les institutions issues des accords de Bretton Woods ont connu une évolution favorable au fil des ans et se sont adaptées à la nouvelle réalité internationale. Les dirigeants du G-7 ont fait écho à ce commentaire en affirmant que les institutions financières internationales ont fait preuve d'une souplesse exceptionnelle pour s'adapter à l'évolution des demandes. Ils ont toutefois souligné que des améliorations sont à la fois possibles et souhaitables dans certains domaines.

Cela dit, il ne s'agit pas de bouleverser le régime des accords de Bretton Woods, mais bien de recibler certaines activités et d'en renforcer d'autres. En effet, même si les institutions issues de ces accords n'étaient pas parfaites, elles ont bien travaillé ensemble et, moyennant les ajustements nécessaires, elles pourraient relever les défis que pose une économie mondiale en évolution. C'est dans cette optique que la réponse du gouvernement au rapport du Comité Graham décrivait les efforts du

Canada en vue de poursuivre la réforme des IFI.

On peut obtenir copie de la réponse du gouvernement auprès de la Division des finances et de l'analyse économique internationale du ministère des Finances en composant le (613) 943-1643.

L'après-conflit

Au Sommet de Halifax, les dirigeants du G-7 ont demandé «aux institutions de Bretton Woods et à l'ONU d'établir une nouvelle procédure de coordination appuyée nécessairement par les ressources existantes, pour faciliter, en cas de crise, une transition harmonieuse de la phase d'urgence à la phase de rétablissement, et de coopérer plus efficacement avec les pays donateurs».

Cette mesure visait à faciliter la prestation d'une aide aux pays ayant récemment été confrontés à l'agitation politique, à des troubles civils ou à un conflit international armé. Bien qu'une aide humanitaire soit souvent offerte en période de conflit, on a déterminé qu'il existe une période d'attente entre la fin des hostilités et la remise en état de l'infrastructure pour permettre la reprise des activités normales de prêt des IFI.

En septembre 1995, le FMI a approuvé une proposition visant à élargir la portée de sa politique d'aide d'urgence pour y englober l'après-conflit. Cette proposition précisait que l'avantage comparatif du Fonds se situait dans la

- relever les défis particuliers que posent les questions comme la dette multilatérale (voir ci-après). Le Canada et les autres pays donateurs reconnaissent que le fardeau d'endettement de certains des pays les plus pauvres les empêche de bénéficier d'un développement durable à plus long terme.

QUESTIONS COMMUNES

Aperçu

Comme nous l'avons vu aux sections précédentes, le FMI et la Banque mondiale sont des institutions importantes pour le Canada, et chacune joue un rôle unique au sein du système économique et financier international. Il peut être intéressant d'examiner ces deux institutions (parfois appelées les « jumelles Bretton Woods ») en parallèle puisqu'un grand nombre de leurs activités sont complémentaires. C'est précisément ce que fait le rapport Graham, dont il est question plus loin, et qu'a préparé le Comité permanent de la Chambre des communes sur les affaires étrangères et le commerce international.

En outre, le mandat des jumelles Bretton Woods se chevauche à certains égards; dans certains cas, il y a lieu d'assurer une coopération et une coordination étroites des activités. En effet, au Sommet de Halifax, les dirigeants du G-7 ont réclamé une coopération et une coordination accrues entre le FMI et la Banque mondiale. Les hautes instances de ces deux institutions ont déployé des efforts considérables à cette fin. Nous examinerons plus loin deux exemples, soit la préparation conjointe d'un projet d'aide aux pays pauvres lourdement endettés et la coopération à l'issue de conflits.

Le rapport Graham

En prévision du Sommet du G-7 de Halifax, le Comité permanent des affaires étrangères et du commerce international, présidé par M. Bill Graham, (IFI) intitulé *De Bretton Woods à Halifax et au-delà : vers un XXI^e Sommet* a publié un rapport sur la réforme des institutions financières internationales pour relever le défi du XXI^e siècle.

Ce rapport énonce un certain nombre de recommandations pour faire des objectifs suivants une priorité :

- redéfinir les rôles névralgiques futurs des institutions issues des accords de Bretton Woods et rendre ces dernières aussi efficaces et imputables que possible;
- réformer les politiques et les pratiques pour accroître l'efficacité des institutions pour ce qui est de réduire la pauvreté à l'échelle mondiale et d'appuyer le développement durable;

AMGI

L'Agence multilatérale de garantie des investissements (AMGI) a été mise sur pied en 1988 pour favoriser l'investissement étranger direct dans les pays en développement en mettant les investisseurs à l'abri de certains risques non commerciaux. Le Canada souscrit au capital-actions de l'AMGI depuis 1988. De la souscription totale de 32,1 millions \$, 6,4 millions \$ ont été libérés et répartis également entre des billets à vue et des espèces. La quote-part du Canada représente 2,7 pour cent du capital de l'AMGI.

Les prochains défis

Le cinquantenaire des institutions issues des accords de Bretton Woods et le Sommet de Halifax, en 1995, ont attiré l'attention du monde entier sur la réforme des IFI, y compris celle de la Banque mondiale. Cet examen ne se limitait pas aux donateurs et aux ONG de l'hémisphère nord et aux universitaires. Les pays membres débiteurs ont leurs propres réticences et suggestions lorsqu'il s'agit d'améliorer les activités de la Banque. À mesure qu'elle poursuivra ses efforts pour apporter les changements nécessaires au cours de la prochaine année, la Banque se penchera sur un certain nombre de questions qui intéressent le Canada, notamment :

- développer des mécanismes pour améliorer la coopération avec les partenaires traditionnels et non traditionnels, qu'il s'agisse d'autres BMD ou de membres débiteurs. Le programme de changement établi par le président Wolfensohn prévoit principalement la multiplication des contacts avec des organisations de l'extérieur, y compris les ONG, les groupes communautaires, les institutions multilatérales et les fondations privées, pour renforcer la pertinence des programmes de la Banque;
- mettre davantage l'accent sur les résultats en saisissant mieux les retombées des activités de la Banque sur le terrain. La Banque prépare une liste d'indicateurs des retombées et s'est récemment jointe à un groupe informel d'autres BMD afin de s'entendre sur des méthodes d'évaluation communes;
- examiner des moyens d'aider les pays récemment déchirés par des conflits à retrouver l'espoir et la dignité en leur offrant notamment une aide à la reconstruction et un soutien technique. Ces pays ont désespérément besoin d'aide, surtout pour permettre aux anciens combattants de réintégrer le marché du travail, et pour créer des emplois. Il faut aussi rebâtir le réseau des services sociaux et aménager ou rétablir les filets de sécurité sociale;
- trouver des façons de composer avec la raréfaction des ressources accordées à des conditions de faveur. Les récentes négociations autour de l'AID 11 révèlent que les donateurs ne sont plus en mesure d'accroître constamment ces ressources. La priorité à ce chapitre devra être accordée aux pays les plus démunis qui n'ont pas accès aux capitaux privés;

d'un an a donc été constitué pour l'exercice 1997 de l'AID auquel tous les donateurs contribueront, à l'exception des États-Unis. Ces derniers ne pourront contribuer qu'au Fonds AID 11 de deux ans qui sera mis sur pied au cours de l'exercice 1998. Le Canada assumera 3,5 pour cent du fonds intermédiaire et 3,75 pour cent du budget de deux ans de AID 11.

Priorités de AID 11

Au lieu de recommander de nouveaux objectifs stratégiques, les négociations visant AID 11 ont insisté davantage sur l'exécution plus efficace des politiques d'aide aux pays les plus pauvres appliquées par la Banque. L'Accord AID 11 insiste particulièrement sur l'amélioration de la qualité des stratégies d'aide aux divers pays, qui constituent le principal critère grâce auquel la Banque détermine l'ampleur et la composition des programmes d'aide destinés à des pays désignés. Les négociations ont débouché sur trois recommandations clés :

- insister davantage sur l'impact des opérations de la Banque, particulièrement sur les pauvres, en mettant au point des indicateurs;
- continuer de mettre des ressources suffisantes à la disposition des pays les plus pauvres, surtout ceux d'Afrique subsaharienne, tout en précisant que l'attribution des ressources repose d'abord et avant tout sur le rendement;

- favoriser une plus grande participation des bénéficiaires à l'élaboration des stratégies d'aide par pays.

Dans le cadre de AID 11, le Canada tenait à ce que des ressources importantes continuent d'être directement attribuées aux pauvres par le biais du Programme d'intervention ciblée (PIC). Les prêts de l'AID au titre du PIC ont augmenté de façon soutenue pendant la période visée par AID 10 et représentaient plus de 50 pour cent de l'aide à l'investissement pour l'exercice 1995. Le Canada a réussi à convaincre l'IDA de maintenir l'accent sur le PIC.

SFI

La plus récente augmentation générale de capital a été approuvée en mai 1992. En vertu de cette AGC, le Canada peut souscrire jusqu'à 35 366 nouvelles actions, évaluées à 35,4 millions \$. Les actions doivent être libérées sur une période de cinq ans. Au 30 juin 1995, la souscription totale du Canada à la SFI s'élevait à 67,2 millions \$, somme qui était entièrement libérée et qui représentait environ 3,6 pour cent du capital total de la SFI.

bien une initiative de privatisation en Russie. Le BLIFI et le Bureau de l'administrateur du Canada à la Banque mondiale inventent les entreprises canadiennes désireuses de soumissionner des marchés à communiquer avec eux.

La participation financière du Canada

BIRD

Le Canada fournit environ 3 pour cent du capital de la BIRD. La proportion de cette contribution qui doit être libérée est relativement modeste. Elle représente environ 6 pour cent du total, mais à peine 3 pour cent de la plus récente contribution. Le reste est exigible «à vue» dans le cas peu probable où la BIRD le réclamerait à ses pays membres. La BIRD reconstruit périodiquement ses fonds par le biais d'une «augmentation générale du capital» (AGC). La plus récente AGC (AGC III) s'établissait à 76,5 milliards \$. En contrepartie, le Canada s'est vu attribuer 19 655 nouvelles actions évaluées à 2,37 milliards \$. La partie libérée de ces actions est de 71,1 millions \$. Ces actions ont été souscrites sur une période de cinq ans terminée en 1993. Au 30 juin 1995, l'ensemble des souscriptions du Canada au capital-actions de la BIRD s'élevait à 5 404 millions \$ (44 795 actions), dont 335 millions \$ avaient été libérés.

AID

L'AID offre une aide financière aux pays en développement les plus pauvres à des conditions très avantageuses (longs délais de remboursement et taux d'intérêt faible) et, contrairement à la BIRD, cette aide prend la forme de subventions versées par des donateurs. L'accord AID 10 conclu en décembre 1992 s'est traduit par une reconstitution de 13 milliards de DTS (18 milliards \$ É.-U.). Cette somme permettra de financer les programmes de prêt de l'IDA sur trois ans, soit jusqu'au 30 juin 1996. La part du Canada s'élevait à 4 pour cent de la reconstitution, soit 829 millions \$. Pour respecter ces engagements, le Canada a émis un billet à vue par année en 1993, 1994 et 1995. Chacun de ces billets est ensuite encaissé sur une période de huit ans. À la fin de l'exercice 1995, les contributions du Canada à l'AID (souscriptions et contributions confondues) équivalaient à 3 979,5 millions de \$ É.-U., ce qui comprend les contributions au Fonds spécial.

Comme nous le disions à la rubrique intitulée Principales questions en 1995, le Canada a participé à la négociation de l'Accord de reconstitution AID 11, qui a pris fin en mars 1996. Les fonds consacrés à l'AID 11 totaliseront environ 22 milliards \$ É.-U. Les donateurs fourniront une tranche de quelque 11 milliards \$ É.-U. et le reste proviendra de sommes reportées de l'AID 10 et de remboursements de prêts. Les arriérés de l'AID 10 ont empêché les États-Unis de verser leur contribution pour la première année d'un programme de financement sur trois ans. Un fonds intérimaire d'une durée

Exemples canadiens de réussite : Obtention de contrats auprès de la Banque mondiale

- **Babcox and Wilcox (Canada)** fournira des chaudières et des générateurs de vapeur pour le projet de centrale de Yanzhou en République populaire de Chine, financé avec l'aide de la Banque mondiale. Ce contrat d'une valeur totale de 155 millions \$ É.-U. a été attribué en décembre 1994.

- Les efforts soutenus déployés par la **Foundation Company of Canada Ltd**, de Toronto (Ontario) ont porté fruit. Elle a été invitée à participer à une coentreprise avec la société *Continental Construction*, de New Delhi, dans le cadre d'un important projet hydroélectrique sur le fleuve Satluj, en Inde. La Banque mondiale fournit une somme de 437 millions \$ É.-U. dans le cadre de ce projet.

Société financière internationale

Les entreprises canadiennes profitent des services de l'organe de

financement privé de la Banque, la Société financière internationale (SFI).

Par exemple, en 1995, les sociétés Cameco, de la Saskatchewan, et

IMGold, de Toronto, ont pris part à des projets en République kirghize et

au Mali. Les banques canadiennes ont également participé à des projets

privés de la SFI par l'entremise de son programme de prêts consortiaux.

Ce programme facilite l'accès au financement commercial par emprunt

dans le cadre de projets parrainés par la SFI. Une étroite collaboration

s'établit entre la SFI et les banques commerciales canadiennes.

Découvrir les débouchés

Afin de promouvoir les intérêts du Canada à la Banque mondiale et d'aider les Canadiens à se familiariser avec les débouchés offerts, l'administrateur du Canada a parcouru le pays en 1995, en compagnie d'employés de la Banque mondiale et de représentants d'autres banques régionales de développement pour animer des colloques sur les perspectives d'achat offertes par les IFI.

Les entreprises canadiennes souhaitent décrocher des contrats financés par la Banque mondiale sont invitées à participer à des séances d'information qui ont lieu le premier jeudi de chaque mois au siège de la Banque, à Washington.

Par l'entremise du Bureau de liaison avec les institutions financières

internationales (le BLFI), ((202) 682-7788), l'ambassade du Canada à

Washington et le Bureau de l'administrateur canadien auprès de la Banque

mondiale ((202) 458-0082) aident les particuliers et les entreprises du Canada

à participer à des projets financés par la Banque mondiale. Les débouchés ne

manquent pas, qu'il s'agisse de construire une centrale hydroélectrique en

Chine, de réaliser une évaluation environnementale au Pérou ou de mener à

en juin 1995, ce groupe a présenté une stratégie visant à accroître la compétitivité des entreprises canadiennes soumissionnant des marchés auprès d'IFI.

Selon l'une des conclusions de ce rapport, l'ACDI pourrait améliorer le rendement du Canada en matière d'achats des IFI si des projets de cofinancement étaient entrepris, utilisant en fait peu de deniers publics canadiens pour mobiliser les ressources beaucoup plus importantes des IFI. Une mission interministérielle qui s'est rendue à Washington en avril 1996 a donné suite à cette recommandation et a désigné 8 projets de la Banque mondiale en Afrique et en Asie auxquels l'ACDI versera des sommes atteignant 55 millions \$ à titre de cofinancement avec la Banque.

La mise en oeuvre des recommandations du groupe de travail a été attribuée à un groupe interministériel, le Groupe d'action des projets d'immobilisation (GAP). C'est ainsi que les efforts de soutien des entreprises canadiennes sont maintenant mieux coordonnés. Par contre, cette initiative ne sera considérée comme un succès que si elle permet aux entreprises canadiennes d'obtenir un plus grand nombre de marchés auprès d'IFI.

Activités des fonds de fiducie

Les fonds de fiducie pour services de conseil appuyés par l'ACDI et gérés par la Banque mondiale représentent une autre source importante de fonds visant à accroître la participation du Canada à des projets de la Banque mondiale. Ces fonds sont utilisés pour présenter de nouveaux experts-conseils à la Banque et pour encourager cette dernière à exécuter des activités dans des secteurs prioritaires pour le Canada. En juin 1995, l'ACDI a conclu une nouvelle entente avec la Banque mondiale, le *Coffinancing, Technical Assistance and Consultant Trust Fund Framework Agreement*, pour régir tous ses accords de fonds fiduciaires avec la Banque. Ces fonds se sont directement traduits par des contrats pour des entreprises canadiennes dans les domaines de l'étude de faisabilité, de l'évaluation et de la conception de projets de développement.

En 1995, l'ACDI a reconstitué (19 millions \$ C) et restructuré le Fonds canadien de fiducie pour services de conseil (pays désigné), qui appuie les experts-conseils canadiens prenant part à la recherche, à la préparation et à la mise en oeuvre de projets financés par la Banque dans 14 pays en développement désignés. L'ACDI et Environnement Canada ont également négocié avec la Banque mondiale la création du Fonds canadien de fiducie pour services de conseil pour l'environnement mondial. Pour plus de renseignements sur le fonds et d'autres fonds de fiducie canadiens auprès de la Banque mondiale, veuillez communiquer avec M. David Brown, Conseiller commercial à l'ambassade du Canada à Washington (téléphone : (202) 682-7788; télécopieur : (202) 682-7789).

Les Canadiens ont également accès aux fonds de la Banque par le biais du Mécanisme de financement de la préparation des projets (PPF), du Fonds pour l'environnement mondial (FEM) et du Fonds des politiques et du développement des ressources humaines (FPDRH).

participe à la prestation de renseignements sur la Banque et fait venir le personnel de la Banque au Canada dans le cadre de colloques et d'exposés portant sur des questions d'intérêt commun.

Structure du Bureau de l'administrateur

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Conseillers canadiens – Achats : M. Greg Ebel/M. François Pagé
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Les achats de biens et services canadiens à la Banque mondiale

Les sociétés et particuliers canadiens oeuvrant dans le secteur du développement international fournissent souvent des biens, du matériel ou des services dans le cadre de projets financés par la Banque mondiale. Les compétences du Canada dans les secteurs de l'énergie, de l'environnement, du génie, des ressources humaines, des télécommunications, des services financiers et des transports se traduisent habituellement par des débouchés d'affaires pour les entreprises canadiennes prenant part à des projets dans des pays en développement.

Jusqu'à présent, les sociétés et particuliers canadiens ont profité d'achats de plus de 3 milliards \$ É.-U. financés par la Banque mondiale (voir l'annexe 4), ce qui représente un rendement cumulé d'environ 90 sous pour chaque dollar provenant du budget du gouvernement canadien. Au cours de l'exercice de la Banque terminé en juin 1995, les sommes versées aux entreprises canadiennes ont totalisé 171 millions \$ É.-U., tandis que les contrats adjugés ont dépassé la marque des 110 millions \$ É.-U. Le Canada a obtenu plusieurs contrats de services d'expert-conseil et il s'est classé quatrième au monde et premier d'après les dépenses par habitant. Comme dans le cas d'autres institutions financières internationales (IFI), les entreprises canadiennes ont connu moins de succès au chapitre des marchés de biens et d'équipement, secteur qui intervient pour les quatre cinquièmes des dépenses totales.

L'idée selon laquelle le Canada pourrait faire beaucoup mieux dans le domaine des achats auprès des IFI a entraîné la création du Groupe de travail interministériel des achats des IFI, composé de représentants d'Industrie Canada, de la Corporation commerciale canadienne (CCC), de l'ACDI, de la Société pour l'expansion des exportations, d'Affaires étrangères et Commerce international Canada et du ministère des Finances. Dans son rapport publié

Banque, et les défis que celui-ci doit relever pour répondre aux besoins des collectivités locales visées dans les pays en développement. À la lumière de cette évaluation de l'efficacité, la Banque modifie ses procédures et, parfois, son approche globale en matière d'exécution de projets.

Participation du Canada aux décisions du Conseil des d'administration

Comme les membres du Conseil des administrateurs insistent sur la recherche d'un consensus, il est rare qu'une décision soit soumise aux voix. Les administrateurs cherchent avant tout à dégager un consensus. Il arrive toutefois qu'un vote soit nécessaire. Au cours de l'année écoulée le Canada a voté contre trois propositions : 1) une demande d'augmentation des salaires du personnel; 2) une demande d'augmentation des salaires des administrateurs; et 3) une proposition de la SFI en vue d'investir dans la base de données de Moody's sur les nouveaux marchés, projet qui ne comportait aucune retombée additionnelle au chapitre du développement et pour lequel le gros des travaux auraient été exécutés à l'extérieur des pays en développement.

Bien que la tenue d'un vote soit rare, le Canada et d'autres actionnaires n'hésitent pas à soulever des préoccupations et des questions à propos des opérations de la Banque, et même sur des sujets qui n'ont pas encore été soumis au Conseil des administrateurs.

Bureau du Canada à la Banque mondiale

Outre l'administrateur, le Bureau compte deux conseillers canadiens et un adjoint. Ces représentants consultent le gouvernement du Canada – non seulement le ministère des Finances, mais aussi l'ACDI et le ministère des Affaires étrangères et du Commerce international. Ces consultations constituent le principal mécanisme de transmission des conseils stratégiques du Canada à l'administrateur et, par le biais de ce dernier, à la Banque mondiale.

L'un des principaux rôles du Bureau consiste à offrir de l'aide aux gens d'affaires canadiens. Bien que la Banque offre d'importants débouchés dans le domaine des achats, elle demeure un vaste organisme à la structure imposante susceptible d'intimider les nouveaux-venus. L'un des conseillers canadiens, ainsi que l'ambassade du Canada à Washington, facilitent la communication de conseils et de renseignements sur les rapports avec la Banque. (Des détails supplémentaires sont fournis ci-après, à la section sur les achats.)

Le Département des affaires étrangères de la Banque constitue un autre point de contact pour le Canada. Ce département a désigné une personne chargée de la liaison avec le secteur public et les ONG au Canada. Cette personne

L'efficacité administrative et la rentabilité

L'efficacité et l'efficacité des opérations de la Banque constituent depuis fort longtemps un important objectif du Canada qui, à l'instar de nombreux autres donateurs aux prises avec des compressions budgétaires, s'attend à ce que les institutions dont il est membre appliquent des méthodes de saine gestion financière. Le Canada et d'autres actionnaires se réjouissent de la réponse de la Banque à ces préoccupations; des mesures ont été prises pour réduire de plus de 10 pour cent en termes réels le budget d'administration de la Banque au cours des exercices 1996 et 1997.

Toutefois, l'efficacité et l'efficacité ne se limitent pas à des compressions

budgétaires. Elles exigent l'établissement de priorités bien définies et une prestation de services plus efficiente et plus stratégique. La Banque doit

oeuvrer dans des domaines où son aide est requise et où elle jouit d'un net avantage comparatif. Elle doit réexaminer les domaines où le secteur privé ou d'autres BMD pourraient être mieux placés pour offrir de l'aide. Au cours de l'année écoulée, la Banque a entrepris un important examen de ses activités et a pris des mesures pour rationaliser ses opérations.

La gestion des intérêts du Canada à la Banque mondiale

En qualité de gouverneur du Canada auprès de la Banque mondiale, le

ministre des Finances assure la gestion des intérêts du Canada auprès de cette institution. Il exerce son influence par le biais d'échanges aux réunions

du Comité du développement et des assemblées annuelles et lors de

rencontres périodiques avec le président de la Banque. Par exemple, lors des assises annuelles de 1995, les gouverneurs ont échangé librement au sujet de

la dette multilatérale et de l'AID. Le gouverneur suppléant du Canada à la

Banque mondiale est le président de l'ACDI.

Le gouverneur confie la gestion courante des divers intérêts du Canada à

l'administrateur, M. Len Good. Ce dernier est l'un des 24 administrateurs. Il

représente le Canada et d'autres pays (l'Irlande et 1 pays des Caraïbes) au

Conseil d'administration, qui regroupe les 24 membres, dont 12 représentent

des pays en développement et 12 autres représentent des pays développés.

L'une des principales tâches de M. Good est de superviser les opérations de la Banque en siégeant au *Committee on Development Effectiveness* (CODE),

mis sur pied en 1994 pour évaluer l'efficacité des opérations de la Banque

sous l'angle du développement. Le CODE examine la gamme complète des

opérations de la Banque, y compris, plus récemment, ses efforts à l'appui de la réforme du secteur financier et du crédit agricole, ses services autres que

les prêts (analyses économiques et aide technique) et la restructuration des

projets peu performants en Afrique et en Russie.

Le Bureau de l'administrateur canadien est l'un des huit membres du CODE et préside son sous-comité qui examine de plus près l'exécution des projets. Le Bureau canadien a participé activement aux travaux du CODE pour mieux

saisir les problèmes d'exécution des projets que rencontre le personnel de la

Les principales questions en 1995

Le Sommet de Halifax : L'année 1995 fut très importante pour le Canada sur la scène internationale. Le Canada a organisé le Sommet de Halifax, qui a rassemblé les dirigeants des pays du G-7 pour examiner les questions économiques et financières d'importance capitale au plan international. Il a notamment été question de la réforme des institutions internationales, y compris de la Banque mondiale. Tout en reconnaissant l'importance et la contribution permanentes des IFI, les dirigeants du G-7 ont convenu que ces institutions n'ont pas toujours suivi l'évolution rapide de l'économie mondiale. Ils ont recommandé une série d'initiatives visant à accroître l'efficacité et l'efficacité du système international des institutions financières.

Groupe de travail des banques multilatérales de développement :

Mis sur pied à la fin de 1994 par le Comité du développement, ce groupe a terminé l'examen du système des banques multilatérales de développement au début de 1996. Conformément aux recommandations formulées au Sommet de Halifax, les deux grands objectifs suivants ont été fixés au Groupe de travail :

- déterminer l'incidence du changement économique sur les priorités de développement, les mécanismes, les opérations et la gestion des cinq principales BMD, et préciser si des améliorations pourraient accroître leur impact sur le processus de développement;

- évaluer les procédures et les méthodes de coordination entre les BMD et d'autres membres de la collectivité du développement, et préciser s'il est possible d'apporter des améliorations au niveau régional, national ou sectoriel.

Le Groupe de travail a remis son rapport aux gouverneurs en mars 1996 et il a réaffirmé la pertinence des BMD et le besoin d'insister sur la réduction de la pauvreté et le développement du secteur privé. Les principales recommandations du rapport insistent sur les façons d'accroître la coordination à l'échelle nationale, tant au niveau des opérations des BMD que de celui des actionnaires. Par exemple, il convient d'inciter les BMD à élaborer des méthodes et critères communs d'évaluation des résultats des projets de développement.

Le Sommet social : Le Sommet mondial sur le développement social de mars 1995 a nettement signalé une réorientation de l'approche de la Banque en matière d'aide au développement social. Au Sommet, la Banque a annoncé son intention d'accroître de 50 pour cent ses prêts au secteur social au cours des trois prochaines années. Une somme de quelque 15 milliards \$ a été engagée pendant cette période à l'égard des besoins sociaux de base, et un montant supplémentaire de 5 milliards \$ a été affecté à des programmes d'adduction d'eau et d'hygiène.

Négociation de l'IDA 11 : Pendant toute l'année, le Canada et d'autres donateurs ont participé à la négociation de la 11^e reconstitution des ressources de l'Association de développement international (AID 11). Ces négociations ont pris fin en mars 1996 à Tokyo. (Nous y reviendrons plus loin.)

Mesures axées sur les résultats

Il faut absolument comprendre l'impact des opérations de la Banque sur le développement pour garantir l'atteinte des objectifs stratégiques de cette dernière. Les actionnaires ont constaté qu'il faut des indicateurs d'impact sur le développement objectifs pour garantir l'utilisation efficace des fonds. L'AID, le Groupe de travail des banques multilatérales de développement (dont nous traiterons plus loin) et le Conseil d'administration ont discuté du développement d'indicateurs semblables.

C'est ainsi que le Groupe de la Banque a amorcé l'élaboration d'une série d'indicateurs des retombées sectorielles. La complexité de la méthodologie et la nécessité de consultations permanentes au sein du Groupe de la Banque et auprès d'autres donateurs ralentissent la démarche. Toutefois, un consensus s'établit quant aux méthodes appropriées, et des indicateurs de développement devraient être intégrés aux opérations de la Banque au cours de la prochaine année.

Participation des ONG au processus décisionnel

La participation des ONG fait maintenant partie intégrante des opérations de la Banque. Au cours de l'exercice 1995, environ 40 pour cent des projets de la Banque dans tous les principaux secteurs prévoyaient une certaine participation des ONG. Ces derniers prennent part de plus en plus à la conception des projets, de même qu'à leur mise en oeuvre. La Banque a récemment amorcé la compilation d'une liste des projets qu'elle finance et auxquels les ONG pourraient participer. Les ONG jouent également un rôle plus important dans les travaux économiques et sectoriels de la Banque, surtout en collaborant avec les pays débiteurs à la préparation de plans nationaux en matière d'environnement et d'évaluations de la pauvreté. Il convient également de souligner le rôle clé des ONG dans le Fonds pour l'environnement mondial (FEM).

L'une des principales tribunes pour la poursuite du dialogue est le Comité Banque-ONG, composé de hauts dirigeants de la Banque et de 26 responsables d'ONG, dont 15 représentent des pays en développement. À l'heure actuelle, la représentante du Canada au sein de ce comité est Mme Ruth Rempel, de la Coalition inter-églises sur l'Afrique. Les ONG ont également participé à de nombreuses discussions, notamment celles de l'AID et du Groupe de travail des BMD. À l'occasion du Sommet social, la Banque a organisé quatre ateliers avec les ONG sur l'investissement dans les gens, la collaboration avec les ONG dans le secteur social, la participation des bénéficiaires et les défis du développement.

Au Canada, les ONG ont participé à des réunions interministérielles périodiques dans la foulée du Sommet de Halifax. Cet exercice a permis à tous les intéressés de faire avancer les intérêts du Canada au sein de la Banque.

Comment obtenir des renseignements de la Banque mondiale

Le Centre d'information publique de la Banque mondiale, qui a ouvert ses portes au début de 1994, offre une vaste gamme de documents de la Banque, y compris :

- des documents d'information sur des projets (DIP);
- des rapports d'évaluation de projets (sur approbation du Conseil d'administration);
- des documents de travail économiques et sectoriels d'envergure nationale, et des documents d'orientation sectoriels;

- le Rapport annuel et le Rapport sur le développement dans le monde;

- le Résumé mensuel des opérations et les Débouchés d'affaires internationaux;

- des fiches de renseignements sur l'environnement, des évaluations et des analyses environnementales et des plans d'action axés sur l'environnement;

- des tableaux sur l'endettement mondial;

- des précis du service d'évaluation des opérations.

Le Centre d'information publique est situé au 1776 G Street, N.W., Washington, D.C. 20433. Téléphone : (202) 458-5454. Adresse électronique : pic@worldbank.org. On peut aussi obtenir des renseignements à jour sur Internet (<http://www.worldbank.org>), sous les rubriques suivantes : renseignements généraux; actualités; travaux de recherche; inspection; nouveaux.

Le Groupe de l'inspection et la responsabilisation

Un groupe d'inspection indépendant a été mis sur pied en septembre 1994 pour déterminer si les projets de la Banque respectent les politiques et les procédures de cette dernière. Ses trois membres font enquête sur les plaintes des personnes visées par les projets de la Banque pour en confirmer la validité et transmettent leurs conclusions au Conseil des administrateurs aux fins de décision finale.

L'un des projets les plus controversés que le Groupe a examinés en 1995 est celui de la centrale hydroélectrique Arun III, au Népal. Le Groupe a conclu à l'unanimité que le projet contrevient à la politique de l'AID et a recommandé la tenue d'une enquête approfondie, que le Conseil des administrateurs a autorisée. Le président de la Banque s'est appuyé sur le rapport final du Groupe de l'inspection lorsqu'il a décidé d'annuler le projet.

Saine régie : Depuis un an, le Canada a pressé la Banque de s'attaquer plus activement aux problèmes de saine régie dans les pays en développement. De façon générale, la réaction de la Banque a été positive. Son personnel favorise maintenant une gestion plus efficace des dépenses publiques et un processus décisionnel plus démocratique et plus ouvert dans les pays débiteurs. Toutefois, la façon de réduire les dépenses improductives, plus particulièrement les dépenses excessives dans le secteur de la défense, continue de préoccuper vivement le Canada, et il conviendrait d'insister davantage sur cette question. À une époque où les ressources des donateurs sont limitées, les clients de la Banque ne peuvent guère se permettre des dépenses improductives. Dans le cadre de ses décisions de prêt, la Banque doit accorder plus d'importance à la mesure dans laquelle un gouvernement débiteur réduit ses dépenses improductives.

Développement respectueux de l'environnement : Depuis

longtemps, le Canada presse vivement la Banque d'intégrer les questions liées à l'environnement à ses opérations, et il soutient nettement la Banque dans ce domaine. La création du poste de vice-président au développement respectueux de l'environnement, en 1993, a permis d'appuyer cet objectif. Un vaste examen des questions environnementales touchant le portefeuille des prêts de la Banque a été entrepris en 1995, dans la foulée de la Conférence des Nations Unies sur l'environnement et le développement (CNUED). Cet examen assurera le caractère écologique des activités de prêt futures de la Banque.

Transparence et responsabilisation

La transparence et la responsabilisation sont essentielles à la poursuite à plus long terme des opérations du Groupe de la Banque. Le Canada défend très fermement une politique d'ouverture accrue à la Banque. Cette dernière a réagi aux préoccupations des actionnaires en publiant un plus grand nombre de documents sur les opérations de la BIRD/AID et de la SFI : La transparence requiert également une meilleure consultation des bénéficiaires. Le Canada et d'autres donateurs ont pressé la Banque et les pays débiteurs de trouver des façons d'améliorer la consultation des populations locales dans les pays bénéficiaires, qu'il s'agisse de concevoir ou d'exécuter des projets, ou d'élaborer d'importants documents d'orientation, comme des stratégies d'aide par pays. En 1995, près du tiers des projets de la Banque ont fait l'objet de consultations auprès d'une vaste gamme d'intéressés dans les pays bénéficiaires. Le Canada a été l'un des principaux promoteurs des activités du Groupe d'inspection au cours de la dernière année. Ce groupe a été mis sur pied pour aider la Banque à mieux rendre compte aux intervenants qui s'inquiètent des répercussions des divers projets.

En 1995, la Banque a instauré ou promu de nouvelles techniques financières pour faciliter le développement du secteur privé. Par exemple, elle insiste davantage sur le recours aux garanties de prêt dans ses activités de prêt. À l'heure actuelle, les pays en développement consacrent environ 200 milliards \$ É.-U. uniquement pour leur infrastructure; ce montant dépasse largement la capacité financière des gouvernements et des organismes internationaux. Un financement à long terme de cette ampleur ne peut être appuyé qu'en recourant davantage aux ressources du secteur privé. Les garanties constituent l'une des principales façons d'assurer ce transfert des ressources. La Banque y recourt de plus en plus pour accroître l'accès des pays en développement aux marchés de capitaux nationaux et internationaux. Les répercussions de plus en plus marquées des opérations de micro-crédit (prêts relativement peu importants accordés aux pauvres par des organismes locaux comme la Grameen Bank au Bangladesh) constituent un autre exemple de l'importance du secteur privé dans le développement. Moyennant un modeste investissement, ces organismes ont aidé à rehausser les conditions de vie des pauvres, et particulièrement celles des femmes dans les pays en développement. L'impact de ces opérations est probant : on constate que les pauvres peuvent non seulement s'aider eux-mêmes, à condition d'avoir des chances égales, mais aussi qu'ils représentent de très bons risques de crédit. Le succès de ces initiatives a incité la Banque mondiale et d'autres donateurs, y compris le Canada, à mettre sur pied le Groupe consultatif sur les plus démunis (GCPD) pour ajouter aux ressources des institutions spécialisées dans le domaine du micro-crédit.

Groupe consultatif sur les plus démunis (GCPD)

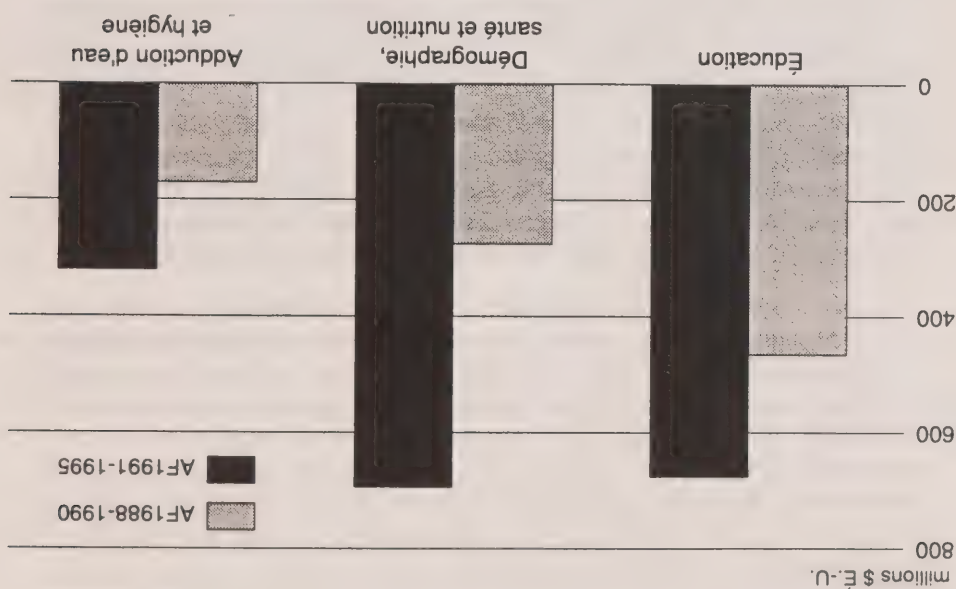
Le Conseil des administrateurs a autorisé la Banque à participer au GCPD en mars 1995. Ce groupe a trois grands objectifs :

- accroître les ressources à la disposition des pauvres dans les pays en développement grâce à des programmes de micro-crédit;
- fournir aux donateurs un moyen de diffuser et d'échanger l'information et l'expérience sur les opérations de micro-crédit;
- aider les donateurs à mieux coordonner la prestation de ces services.

Le GCPD cherche à accroître la capacité des institutions de micro-crédit qui ont fait leurs preuves à fournir une aide aux pauvres. La Banque mondiale a contribué 30 millions \$ à cette fin; d'autres donateurs, dont le Canada, ont versé 70 millions \$.

la réduction de la pauvreté comme la priorité de la Banque mondiale. Ces dernières années, la Banque a adopté un point de vue de plus en plus global (ou «intégré») à l'égard de la réduction de la pauvreté; elle reconnaît que cette question ne peut être étudiée en vase clos. Le développement du secteur privé, une saine régulation et des politiques respectueuses de l'environnement représentent quelques-uns des facteurs qui doivent être pris en compte pour concevoir des stratégies visant à relever le niveau de vie des pauvres dans les pays membres.

Hausse des prêts de l'AID au secteur social



Au cours des dernières années, la Banque a misé sur les prêts au secteur social pour réduire la pauvreté. Les prêts visant le développement des ressources humaines, plus particulièrement en ce qui touche les besoins de santé primaires et d'éducation, sont devenus très importants. Dans les années 80, ils représentaient environ 5 pour cent de l'aide; ce pourcentage est passé à près de 15 pour cent au cours des trois dernières années. La Banque est maintenant la plus importante source de financement de l'investissement dans le capital humain au monde.

Développement du secteur privé : Au cours de l'année écoulée, le Canada a favorisé une approche de plus en plus coordonnée en matière de développement du secteur privé au sein du Groupe de la Banque mondiale, compte tenu du rôle fondamental que joue le secteur privé dans l'aide au développement durable à plus long terme. La Banque appuie des prêts d'environ 25 milliards \$ par année au secteur privé et elle favorise des investissements de quelque 4 milliards \$ par année dans le secteur privé grâce à des prêts dits «d'intermédiation financière» d'une valeur approximative de 2 milliards \$ par année.

- Le Canada profite du rôle de premier plan que joue la Banque pour mobiliser des donateurs afin de réagir promptement aux situations d'urgence dans divers pays à la suite d'un conflit. Par exemple, le Canada et d'autres donateurs ont collaboré étroitement avec la Banque pour fournir une aide d'urgence pour la reconstruction de la Bosnie en 1995. Dans le cadre du processus de paix au Moyen-Orient, le Canada participe de près aux efforts de la Banque afin de mobiliser des ressources destinées à la Cisjordanie et à la bande de Gaza. Grâce à cette coopération, le Canada peut exercer une plus grande influence qu'à l'échelle bilatérale.

- Le Canada profite du rôle que joue la Banque mondiale au chapitre de la mobilisation des donateurs dans le cadre des groupes consultatifs (GC) pour offrir une aide à certains pays dans le besoin. Par le biais des GC, les pays donateurs peuvent coordonner leurs conseils stratégiques et leurs programmes opérationnels de manière à uniformiser les conseils fournis aux emprunteurs et à optimiser l'incidence de leurs opérations. Le Canada tire également profit de l'étroite collaboration entre la Banque mondiale, l'ACDI et d'autres donateurs dans le cadre d'importants programmes internationaux, comme le programme spécial d'aide à l'Afrique et le Fonds pour l'environnement mondial (FEM).

- Les organismes d'aide canadiens, plus particulièrement l'ACDI, font largement appel aux travaux de recherche et aux politiques de la Banque pour mieux comprendre les rouages du développement international. L'accès direct au personnel et aux compétences de la Banque accroît sensiblement l'efficacité d'une vaste gamme de programmes de l'ACDI.
- L'adhésion à la Banque permet d'influencer les politiques de développement international qui intéressent les Canadiens. La participation au rapport de recherche annuel de la Banque, le Rapport sur le développement dans le monde, permet au Canada d'influer sur les discussions générales concernant la pauvreté, le marché du travail, la santé et l'environnement. À ce titre, en 1995, l'ACDI et la Banque mondiale ont créé un groupe de travail conjoint sur la pauvreté.
- Enfin, les sociétés et les particuliers canadiens profitent de façon soutenue de notre participation au Groupe de la Banque mondiale dans le domaine des achats. À la fin de l'exercice 1995, les dépenses cumulatives à l'égard des prêts de la BIRD et de l'AID relativement à des biens et services canadiens totalisaient plus de 3 milliards \$ É.-U.

Les priorités du Canada à la Banque mondiale

Priorités de développement

Malgré des progrès soutenus en vue d'améliorer les niveaux de vie partout dans le monde, plus de 3 milliards de personnes demeurent dans un état de pauvreté extrême. Depuis longtemps, le Canada joue un rôle de premier plan sur la scène internationale pour soulager la pauvreté et il préconise fermement

organisme davantage axé sur ses clients, mieux géré et plus souple, qui sera mieux placé pour relever les défis en mutation à l'échelle internationale. Même si les réformes n'en sont encore qu'aux premières étapes, le Canada appuie fermement les efforts déployés par le président Wolfensohn pour effectuer de véritables changements au sein de la Banque.

Le Sommet de Halifax et la Banque mondiale

Dans leur communiqué, les participants au Sommet de Halifax réclamaient la réforme des institutions multilatérales et une meilleure coordination. En réponse à ces demandes, la Banque mondiale :

- lance une série de réformes internes pour être davantage axée sur ses clients, mieux gérée et plus souple face aux défis sur la scène internationale;

- décentralise ses opérations et accorde plus d'importance aux travaux sur le terrain pour améliorer la consultation des parties visées par ses projets. Les responsables du dossier de certains pays seront mutés du siège de la Banque pour améliorer la coordination sur le terrain;

- coordonne mieux ses programmes avec ceux d'autres banques multilatérales de développement, notamment par le biais d'un groupe d'évaluation commun, d'une coopération plus étroite en matière de stratégies nationales et d'analyses économiques;

- améliore l'intégration des activités du secteur privé à l'échelle du Groupe de la Banque mondiale et confie le développement du secteur privé à un nouveau directeur général qui préside également un nouveau groupe de travail du secteur privé;

- réorganise le Comité du développement (comité des ministres du FMI et de la Banque mondiale) pour accroître l'efficacité du processus décisionnel en insistant davantage sur l'échange véritable de points de vue entre les ministres.

Les avantages de l'adhésion

- La part de 3 pour cent des voix que détient le Canada à la Banque mondiale lui confère un siège au Conseil d'administration de cette dernière, qui compte 24 membres, et au Comité du développement du FMI/Banque mondiale. Le Canada peut, tant par le biais du Conseil d'administration qu'à l'intérieur de la Banque, participer à l'élaboration des politiques de la Banque et à la prise de décisions touchant ses opérations. Le Canada et d'autres actionnaires conseillent la Banque dans le but ultime d'accroître la performance économique, sociale et environnementale des pays en développement.

- le FMI a besoin de ressources suffisantes pour ses opérations de prêt courantes. Il doit donc obtenir, dans le cadre de la 1^{re} Révision générale des quotes-parts présentement en cours, l'autorisation d'augmenter adéquatement les quotes-parts. On devrait également profiter de cette révision pour faire en sorte que la quote-part des pays membres corresponde davantage à leur position relative au sein de l'économie mondiale;
- le FMI devrait contribuer efficacement à l'élaboration d'une stratégie détaillée de gestion de la dette en veillant à disposer de ressources suffisantes pour continuer de financer la Facilité d'ajustement structurel renforcée à l'intention des pays les plus pauvres, et poursuivre la mise sur pied d'une FASR autofinancée.

LA BANQUE MONDIALE

Aperçu

En sa qualité de membre de la Banque mondiale, le Canada participe de près à l'étude des grandes questions de développement au sein de la plus importante banque multilatérale de développement au monde. Avec ses 179 membres, la Banque influe de façon marquée sur le développement à l'échelle internationale. Elle aide ses membres, qu'il s'agisse de pays en développement ou de pays faisant la transition d'une économie planifiée à une économie de marché, en leur donnant accès aux marchés financiers internationaux à des fins de développement. Elle fournit également des conseils sur des questions stratégiques déterminantes pour l'amélioration des perspectives de développement à plus long terme de ses membres. Au cours de son exercice 1995, la Banque mondiale a fourni à ces pays des prêts et des crédits totalisant plus de 22 milliards \$ É.-U. (voir l'annexe 2). En un demi-siècle d'activité, elle a versé plus de 350 milliards de dollars aux pays en développement (voir l'annexe 3).

De nombreux pays membres de la Banque mondiale, qu'ils soient en développement ou en transition, continuent d'avoir beaucoup de difficulté à releasser le niveau de vie de leur population. Par contre, l'aide de la Banque a permis d'accroître l'autonomie de certains pays. Dans les pays qui ont instauré un climat propice, les investisseurs privés jouent un rôle de plus en plus important pour favoriser le financement de la croissance future. Ce faisant, la Banque mondiale a joué un rôle de catalyseur de premier plan.

Une nouvelle vision pour la Banque mondiale

À l'occasion du Sommet de Halifax, en juin 1995, le Canada et d'autres membres du G-7 ont recommandé des changements en profondeur visant le fonctionnement des institutions multilatérales. Le nouveau président de la Banque mondiale, M. James Wolfensohn, a relevé le défi en annonçant des réformes de grande envergure. Il s'est engagé à faire de la Banque un

À la fin de l'année, les réserves du Canada totalisaient 791,8 millions de DTS, soit 101,6 pour cent de notre allocation cumulative. En 1995, les réserves moyennes de DTS du Canada dépassaient notre allocation, ce qui a généré un revenu d'intérêt net de 2,8 millions de DTS². Ce revenu, de même que le revenu net à titre de créditeur net auprès du Fonds, est versé au Compte du fonds des change du Canada, ce qui ajoute à nos réserves internationales.

En 1995, le Canada a contribué à la Facilité d'ajustement structurel renforcée (FASR) du FMI. Cette facilité offre une aide financière à des conditions de faveur à des pays à faible revenu aux prises depuis longtemps avec des problèmes de balance des paiements. L'engagement du Canada à l'égard de la FASR prend la forme d'un prêt de 500 millions de DTS et d'une subvention d'environ 190 millions de DTS. À la fin de 1995, les remboursements relatifs à ces accords totalisaient 190,4 millions de DTS et les subventions représentaient 46,7 millions de DTS. Le reste des obligations à la fin de 1995 s'établissait à 309,7 millions de DTS dans le cadre du prêt de la FASR et à 143,3 millions de DTS pour ce qui est de la bonification d'intérêt. Le Canada offre également une ligne de crédit en vertu des Accords généraux d'emprunt (AGE), mécanisme de crédit établi par le Groupe des dix (G-10) des pays industrialisés pour compléter au besoin les ressources du Fonds. La ligne de crédit du Canada en vertu des AGE représente 892,5 millions de DTS. Cette ligne de crédit n'a pas été utilisée au cours des dernières années, et le Fonds n'y a pas puisé en 1995. Elle constitue toutefois un important filet pour le Fonds en cas de crise financière.

Les prochains défis

Le Fonds doit absolument être en mesure d'affronter les risques de déstabilisation du système monétaire international. Il doit aussi continuer d'aider ceux de ses membres qui éprouvent des problèmes au titre de leur balance des paiements, et surtout les pays pauvres les plus endettés. Pour ce faire :

- les travaux en cours, notamment avec les pays du G-10, afin de doubler les ressources disponibles à l'heure actuelle par le biais des AGE devraient être achevés pour que le Fonds dispose des liquidités nécessaires pour faire face à des crises financières;

² Le DTS est un instrument de réserve international créé par le FMI et faisant l'objet d'allocations périodiques (en vertu d'une décision du Conseil des gouverneurs du FMI) aux pays membres pour compléter leurs réserves de devises et d'or. Aucune allocation n'a été effectuée depuis le début des années 80. Lorsque les réserves de DTS d'un pays membre sont supérieures (inférieures) à son allocation cumulative, ce membre (le Fonds) touche des intérêts sur la différence.

Bureau du Canada au FMI

Outre l'administrateur, le bureau du Canada compte un conseiller canadien et deux adjoints techniques. L'Irlande choisit l'administrateur suppléant et les pays des Caraïbes désignent un deuxième conseiller.

La responsabilité principale du bureau de l'administrateur consiste à représenter les intérêts du Canada et des autres pays représentés au Conseil d'administration du Fonds. Le bureau participe aux discussions du Conseil, qui portent sur une grande variété de questions d'ordre stratégique, opérationnel et administratif, notamment des questions de surveillance, des demandes d'aide des pays et des examens connexes.

La participation financière du Canada

La participation financière du Canada au FMI se compose principalement de sa quote-part, qui s'établit à 4 320,3 millions de DTS, soit environ 3 pour cent du total des quotes-parts. Notre quote-part est un avoir à la disposition du Fonds, libellé en partie en dollars canadiens et en partie en devises, notamment en dollars américains ou en DTS. Ces montants en devises continuent de faire partie des réserves de change du Canada. Puisqu'elle constitue un avoir, la quote-part du Canada ne représente pas une dépense pour le gouvernement du Canada.

Seule une très faible partie de notre quote-part en dollars canadiens est effectivement détenue en espèces par le Fonds. Le reste est conservé par la Banque du Canada (sous forme de billets à vue) au cas où le FMI aurait besoin de ressources additionnelles. Le Canada reçoit des intérêts sur sa quote-part lorsque le dollar canadien est utilisé pour effectuer des prêts, c'est-à-dire lorsque d'autres pays membres effectuent des tirages en dollars canadiens. En 1995, le Canada a touché 17,4 millions de DTS à titre de créditteur net.

Tableau 2

Position du Canada au FMI

	31 décembre 1995	31 décembre 1994
Quote-part	4,320,3	4,320,3
Avoirs du Fonds en dollars canadiens ¹	3,484,2	3,691,2
Position de réserve du Fonds ²	836,2	629,9

¹ En accord avec les règlements du Fonds, ce dernier conserve au moins 0,25 pour cent de la quote-part du Canada sous forme de dépôt en dollars canadiens à la Banque du Canada. Le solde de l'avoir du Fonds en dollars canadiens prend la forme de billets à vue ne portant pas intérêt, également confiés à la Banque du Canada.

² Montant que le Canada a le droit de tirer à vue au FMI pour les besoins de sa balance des paiements. Ce montant résulte à la fois de la partie de notre quote-part mise à la disposition du Fonds en devises sur une certaine période et de l'utilisation de dollars canadiens dans le cadre des opérations financières du Fonds avec d'autres pays membres. Comme sa désignation l'indique, la position de réserve du Fonds fait partie des réserves officielles en devises du Canada.

d'administration. Ce dernier compte 12 représentants de pays en développement et 12 autres de pays industrialisés. À titre de principal organe décisionnel du Fonds, le Conseil tient habituellement trois réunions par semaine.

Le ministère des Finances coordonne la politique et les intérêts opérationnels du Canada au FMI. La Banque du Canada, Affaires étrangères et Commerce international Canada (AECIC) et l'Agence canadienne de développement international (ACDI) figurent au nombre des autres ministères et organismes mis à contribution. Avec l'aide de ces ministères et organismes et du bureau de notre administrateur auprès du FMI, la Division des finances et de l'analyse économique internationale du ministère des Finances effectue des analyses et prépare des conseils sur les questions stratégiques et les programmes propres à certains pays, qui sont soumis au Conseil d'administration.

Le Parlement est informé des activités et des opérations des institutions issues des accords de Bretton Woods au moyen du rapport annuel sur les opérations de ces institutions, des communiqués du Comité interimaire et du Comité du développement et de la participation des administrateurs canadiens et des fonctionnaires aux travaux des comités parlementaires.

Participation du Canada aux décisions du FMI

La plupart des décisions du FMI ayant fait l'objet d'un consensus, il est rare que les gouverneurs et le Conseil d'administration soient appelés à voter de façon officielle. Le Canada tente d'orienter l'élaboration des propositions touchant les politiques du Fonds avant qu'elles n'atteignent le Conseil d'administration (le plus souvent, en faisant circuler des mémoires énonçant sa position) ou d'influencer les autres membres par le biais de discussions au Conseil. En 1995, le Canada a voté contre la proposition visant à majorer les salaires des administrateurs et il s'est opposé à l'augmentation des salaires du personnel du FMI.

Structure du bureau de l'administrateur

Administrateur : M. Ian Clark

Conseiller canadien : M. Sean O'Connor

Adjointe canadienne : Mme Nicole Laframboise

Adjoint canadien : M. Christoph Duenwald

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Adresse : 11-100, 700 19th Street, N.W. Washington, D.C. 20431 USA

Tableau 1

Flux des ressources du FMI

	1994	1995
(en milliards de DTS)		
Achats totaux	5,9	18,4
Dont :		
Accords de confirmation	1,8	14,3
Mécanisme élargi de crédit	0,9	2,0
Facilité de financement compensatoire et de financement pour imprévus	0,3	0,0
Facilité d'ajustement structurel et	0,9	1,4
Facilité d'ajustement structurel renforcée	0,9	
Facilité de transformation systémique	1,9	0,6
Rachats totaux	4,6	6,6
Achats nets	1,3	13,8

Ces dernières années, les prêts consentis en vertu des accords de confirmation et des mécanismes de prêt à des conditions concessionnelles (Facilité d'ajustement structurel (FAS) et Facilité d'ajustement structurel renforcée (FASR)) ont augmenté de façon appréciable. En outre, les prêts accordés dans le cadre du Mécanisme élargi de crédit (MEC) ont doublé en 1995 à la suite d'un crédit d'un milliard de DTS offert à l'Argentine. Le recours à deux autres facilités spéciales, la Facilité de transformation systémique (FTS) et la Facilité de financement compensatoire et de financement pour imprévus (FFCI), a enregistré une baisse en 1995. L'accès à la FTS, une facilité temporaire établie pour aider la Russie et d'autres pays à économie centralisée à passer à l'économie de marché, s'est terminé à la fin de 1995.

La gestion des intérêts du Canada au FMI

Le ministre des Finances représente le Canada au Conseil des gouverneurs du FMI, et il est chargé de gérer les intérêts du Canada auprès du Fonds. Le Ministre intervient dans les dossiers du FMI en participant aux réunions du Comité intermédiaire, au printemps et à l'automne, en faisant une intervention à la plénière des réunions annuelles conjointes du FMI et de la Banque mondiale et en rencontrant périodiquement le directeur général du Fonds. (On peut consulter les allocations du Ministre sur Internet, à la page d'accueil de Finances Canada, à l'adresse suivante : <http://www.fin.gc.ca/>) La gestion des intérêts du Canada dans le cadre des travaux permanents du FMI est déléguée par le gouverneur à l'administrateur, M. Ian Clark, représentant du Canada au Conseil d'administration. M. Clark est l'un des 24 membres du Conseil d'administration; il représente le Canada et plusieurs autres pays (l'Irlande et plusieurs pays des Caraïbes) au Conseil

Les rouges du FMI

Le FMI fonctionne à la manière d'une caisse de crédit. Il dispose de vastes ressources qu'il offre de plusieurs façons aux pays membres pour les aider à corriger les déséquilibres provisoires de la balance des paiements.

Les membres fournissent des ressources au FMI sous forme de «quotes-parts» d'après leur importance relative dans l'économie mondiale. La quote-part d'un pays permet de déterminer dans quelle mesure il pourra puiser dans les ressources du Fonds s'il est confronté à des problèmes économiques. À la fin de 1995, l'ensemble des quotes-parts des 181 membres du FMI s'établissait à 145,3 milliards de DTS.

Un pays membre utilise les ressources générales du FMI en achetant (opération appelée «tirage») des monnaies d'autres pays membres en équivalent de sa propre monnaie. Le pays membre rachète (rembourse) ses propres devises au FMI à l'aide des devises d'autres pays membres sur une certaine période, moyennant intérêt. Ainsi, les pays membres se font mutuellement crédit.

Les pays membres qui cherchent à obtenir une aide financière peuvent recourir à la «tranche de réserve» et aux quatre «tranches de crédit», dont chacune représente 25 pour cent de leur quote-part. Une fois la première tranche de crédit utilisée, le pays membre et le FMI doivent conclure une entente portant sur une série de mesures et de réformes économiques visant à éliminer les problèmes de balance des paiements et à instaurer le climat propice à la croissance durable non inflationniste. Selon la gravité du problème, ces mesures font l'objet d'un «accord de confirmation» (AC) ou d'un «mécanisme élargi de crédit» (MEC). Les accords de confirmation s'échelonnent habituellement sur 12 à 18 mois, tandis que les mécanismes élargis de crédit durent généralement trois ans. Les tirages visant les tranches supérieures sont répartis sur la durée de l'accord.

Les membres peuvent également recourir à des mécanismes instaurés à des fins particulières, notamment la «facilité de financement compensatoire et de financement pour imprévus» (FFCI), qui prévoit une aide financière aux pays membres confrontés à des recettes d'exportation insuffisantes ou à d'autres chocs externes imprévus.

Les pays en développement à faible revenu ont accès à une aide financière à des conditions concessionnelles dans le cadre de la «facilité d'ajustement structurel» (FAS) et de la «facilité d'ajustement structurel renforcée» (FASR), sous forme de prêts à des conditions très favorables.

Comment obtenir des documents du FMI

Le Service des publications du FMI fournit une vaste gamme de documents sur les politiques et les activités du Fonds, et sur la conjoncture financière et économique internationale :

- le rapport annuel du FMI,
- les perspectives économiques mondiales,
- les rapports par pays,
- les statistiques financières internationales,
- le Rapport annuel sur les régimes et les restrictions de change,
- les communiqués,
- l'enquête du FMI.

Le Centre des publications est situé au 700 19th Street, N.W., Washington, D.C. 20431. Téléphone : (202) 623-7430; télécopieur : (202) 623-7201. Adresse Internet : publications@imf.org. Divers documents du FMI sont également accessibles sur Internet par le biais du W3 : gopher://gopher.imf.org.

Administration efficiente

Le Canada est au nombre de ceux qui pressent le Fonds d'assainir la gestion financière de ses propres tâches administratives. Le Canada a enjoint le Fonds de trouver des façons plus rentables d'exécuter ses programmes et s'est opposé au relèvement des traitements des employés. Les dirigeants du Fonds ont réagi en adoptant des mesures pour rationaliser les activités de ce dernier, comprimer les frais d'administration et réduire les effectifs.

La situation des prêts en 1995

L'une des principales activités du Fonds consiste à fournir une aide financière à court ou à moyen terme aux pays membres qui éprouvent des problèmes de balance des paiements pour leur permettre de corriger les déséquilibres provisoires de la balance des paiements tout en limitant le plus possible la perturbation du système monétaire international. Le soutien financier du FMI et l'aide supplémentaire qu'il mobilise souvent auprès d'autres sources facilitent les ajustements économiques.

À la fin de 1995, le FMI avait conclu des accords de prêt d'une valeur de 31,2 milliards de DTS¹ avec 62 pays membres (voir l'annexe 1). Les tirages effectués par ces pays ont accusé une hausse marquée en 1995, atteignant 18,4 milliards de DTS, soit trois fois plus qu'en 1994. Cette hausse importante des prêts est imputable à l'ampleur des sommes consenties au Mexique (8,8 milliards de DTS) et à la Russie (3,6 milliards de DTS).

¹ Le DTS est l'unité de compte normalisée des opérations du FMI. Il représente un panier de cinq monnaies importantes : le dollar américain, le deutsche mark, le yen, la livre sterling et le franc français. À la fin de 1995, 1 DTS valait 2,03 \$ C.

Questions soulevées par le FMI au Sommet de Halifax

Les dirigeants du G-7 ont convenu au Sommet économique de 1994 que le Sommet de Halifax devait essentiellement porter sur les moyens de faire en sorte que l'économie mondiale du XXI^e siècle assure un développement durable, allié à la prospérité et au bien-être des peuples de leurs pays et du monde, en dressant le cadre d'institutions (y compris celles issues des accords de Bretton Woods) nécessaire pour relever ces défis.

Les représentants du G-7 ont conclu au Sommet de Halifax que des améliorations s'imposaient même si les institutions financières ont affiché une souplesse exceptionnelle en s'adaptant à l'évolution des besoins de l'économie mondiale. En conséquence, ils ont recommandé au Fonds monétaire international :

- d'élaborer un système de pré-alerte amélioré pour déceler les crises financières en resserrant la surveillance des politiques économiques nationales et de l'évolution des marchés financiers;
- d'accroître sa capacité de réagir à des crises en établissant de nouvelles procédures visant à fournir un accès plus rapide à ses ressources;
- d'augmenter les ressources mises à la disposition du Fonds pour régler des crises financières.

Transparence et responsabilisation

La plus grande visibilité des activités du FMI aide le public à mieux comprendre les rouages de cette institution. Le Canada a appuyé des mesures visant à renforcer la transparence des activités du Fonds et la responsabilisation à cet égard. Le Fonds a donné suite aux préoccupations de ses membres en diffusant de plus en plus de renseignements sur ses opérations : il publie des rapports par pays, assure une plus grande couverture de ses consultations annuelles auprès de ses membres et donne accès à ses archives remontant à 30 ans et plus.

Régie

Les questions de régie intéressent le FMI. Tout en conseillant aux pays de limiter leurs dépenses, le Fonds accorde plus d'importance à la composition des dépenses publiques des pays membres et aux conséquences économiques des dépenses improductives, surtout celles consacrées à la défense. Les programmes qu'appuie le FMI soulignent l'importance de réduire ou d'éliminer les dépenses improductives, ce qui permet de consacrer des ressources accrues à des fins plus constructives, notamment pour financer les filets de sécurité sociale et d'autres dépenses à caractère social.

- veiller à ce que le Fonds ait accès à des ressources suffisantes pour continuer de financer la Facilité d'ajustement structurel renforcée au profit des pays membres les plus pauvres.

À la suite de ces recommandations, le Conseil d'administration du Fonds a pris les mesures suivantes au cours de l'année écoulée.

Préparation et diffusion de données. De nouvelles normes de données sont établies pour mieux informer les marchés de l'évolution des secteurs des finances et de l'économie et pour renforcer la surveillance exercée par le Fonds. Les pays qui empruntent sur les marchés de capitaux publieront des données plus actuelles et plus détaillées grâce à la «Special Data Dissemination Standard» élaborée en avril 1996. Le FMI établira une norme générale moins rigoureuse à l'intention de tous les membres vers la fin de 1996. Des renseignements sur les méthodes statistiques des membres qui adhèrent à la Special Data Dissemination Standard seront affichés dans un «babillard électronique» du FMI pouvant être consulté par Internet. Selon le FMI, ce babillard sera fonctionnel vers la fin d'août 1996. Le Canada a adhéré à la norme plus rigoureuse.

Mécanisme de financement d'urgence. Une nouvelle procédure permanente, le Mécanisme de financement de l'urgence, permet au Fonds de régler plus rapidement de graves crises financières. Cette nouvelle procédure permettra au Fonds, dans des circonstances exceptionnelles, d'aider rapidement les membres confrontés à de soudaines perturbations du marché et qui s'engageront à appliquer les réformes nécessaires.

Accords généraux d'emprunt (AGE). Pour que le Fonds ait accès à des ressources suffisantes pour satisfaire à la demande, un groupe de pays industrialisés désignés Groupe des dix (G-10) a convenu en octobre dernier d'examiner de nouveaux mécanismes de financement qui pourraient compléter les Accords généraux d'emprunt (entente de crédit qui appuie les ressources courantes du FMI). Un groupe de travail du G-10 préside par le Canada a amorcé des consultations auprès d'éventuels adhérents. Cet exercice a pour but de doubler les ressources offertes dans le cadre des AGE à partir des cotisations des pays du G-10 et d'autres pays capables de soutenir le système financier international.

Facilité d'ajustement structurel renforcée (FASR). En octobre 1995, le Comité intermédiaire a appuyé le maintien de la FASR, qui représente le principal accord de prêt en vertu duquel le Fonds offre des ressources au pays les plus pauvres à des conditions de faveur. Le Comité a demandé au Conseil d'administration de préparer des propositions sur le financement futur de la FASR, notamment sur son autofinancement. À sa réunion d'avril 1996, le Comité a demandé au Conseil d'administration d'achever ses discussions sur l'élaboration des propositions de financement avant les assemblées annuelles du FMI et de la Banque mondiale prévues pour septembre 1996.

- Les discussions des membres du Comité interimaire du FMI (composé des gouverneurs du Fonds et de représentants du Conseil d'administration qui se réunissent deux fois par année) en avril 1995 et du Sommet de Halifax, au mois de juillet suivant, ont débouché sur des recommandations en vue de remanier les procédures et les mécanismes en usage au FMI. Les principales recommandations visaient à :
- déterminer les problèmes avant qu'ils ne dégénèrent en crise en renforçant les activités du FMI au plan de la surveillance des politiques nationales et de l'évolution des marchés financiers et en intensifiant la divulgation de ces renseignements aux participants du marché monétaire;
 - veiller à l'application de procédures pour raccourcir les délais de réaction aux crises financières;
 - s'assurer, par l'examen de la 1^{re} Révision générale des quotes-parts, que le Fonds dispose de ressources suffisantes pour effectuer ses opérations courantes de prêt, et faire en sorte, en doublant les ressources mises à la disposition des Accords généraux d'emprunt du FMI, que le Fonds possède suffisamment de liquidités pour donner suite aux situations d'urgence;

La crise mexicaine

La crise financière qu'a connue le Mexique à la fin de 1994 n'a pas touché que ce pays. Elle a aussi ébranlé le système financier international. Les craintes des investisseurs à propos du peso mexicain, exacerbées par le climat politique du pays, ont entraîné une fuite de capitaux et des attaques spéculatives répétées contre le peso tout au long de 1994. Cette situation a engendré l'épuisement soutenu des réserves de devises et la dévaluation, puis le flottement du peso en décembre 1994. Les investisseurs mexicains et étrangers qui avaient subi des pertes substantielles sur les titres libellés en pesos ont retiré des sommes importantes des marchés financiers mexicains.

La grave crise de confiance s'est étendue à certains «nouveaux marchés» dans les pays en développement, principalement en Amérique latine, et même à certains pays industrialisés.

Le gouvernement mexicain est intervenu rapidement pour instaurer un programme de stabilisation afin d'atténuer les déséquilibres économiques et de rétablir la confiance des investisseurs intérieurs et étrangers. Le FMI a réagi d'une manière sans précédent pour appuyer le programme d'ajustement du Mexique et limiter les effets de débordement et de contagion. Le 1^{er} février 1995, le FMI a approuvé un crédit de soutien de 12,1 milliards de DTS (17,8 milliards \$ E.-U.) pour une période de 18 mois. Il s'agit de la plus importante somme jamais accordée par le FMI à l'un de ses membres.

Les avantages de l'adhésion

L'adhésion au FMI offre certains avantages particuliers :

- Le ministre des Finances est l'un des gouverneurs du Fonds et il compte un administrateur au sein du Conseil d'administration, lequel regroupe 24 membres. Cette représentation permet au Canada d'influencer en haut lieu les décisions du FMI au sujet de programmes d'aide destinés à certains pays et des grandes questions qui influent sur le système financier mondial.

- Par l'examen périodique de la situation des pays membres, le FMI offre au Canada une source indépendante de conseils stratégiques sur les politiques macro-économiques et en discute de façon régulière avec les représentants du ministère fédéral des Finances et de la Banque du Canada.

- Grâce aux efforts déployés par le FMI pour que les pays débiteurs respectent leurs obligations en vertu des programmes d'aide du Fonds, ces pays remboursent les prêts bilatéraux que leur consent le Canada et utilisent efficacement notre aide bilatérale de développement.

- La participation financière du Canada au FMI lui rapporte des intérêts.
- Si le Canada était confronté à de graves problèmes au chapitre de la balance des paiements, il pourrait demander une aide financière au FMI.

Les priorités du Canada au sein du FMI

Stabilité économique et financière mondiale

L'un des principaux objectifs du Canada consiste à faire en sorte que le FMI soit capable de satisfaire les nouveaux besoins de l'économie mondiale et de composer avec les crises qui pourraient surgir, par exemple celle qui a frappé le Mexique à la fin de 1994. Le Fonds doit donc réagir rapidement pour adapter ses mécanismes et politiques de prêt.

À la suite de la crise financière mexicaine, à la fin de 1994, le FMI a pris des mesures sans précédent pour appuyer le vigoureux programme de redressement économique mis en oeuvre par le Mexique et pour limiter les répercussions sur d'autres pays. Cependant, cette crise a fait ressortir la nécessité d'examiner la capacité du système monétaire international, et plus particulièrement celle du FMI, d'endiguer d'importantes crises financières.

Rôles du FMI et de la Banque mondiale

Fonds monétaire international Banque mondiale

- Surveille le système monétaire international et favorise la coopération monétaire internationale.
- Favorise la stabilité de change et des relations de change ordonnées entre les pays membres.
- Offre une aide financière à court et à moyen terme aux pays qui éprouvent des problèmes de balance des paiements.
- Tire principalement ses ressources financières des quotes-parts des Etats membres.
- Offre une aide financière spéciale aux pays en développement les plus pauvres par l'intermédiaire de l'Association internationale de développement.
- Aide les pays en développement en finançant à long terme des projets et des programmes de développement.
- Offre une aide financière spéciale aux pays en développement les plus pauvres par l'intermédiaire de l'Association internationale de développement.
- Stimule l'entreprise privée dans les pays en développement, essentiellement par l'intermédiaire de sa filiale, la Société financière internationale (SFI).
- Obtient la plupart de ses ressources financières au moyen d'emprunts sur le marché obligataire international.

LE FONDS MONÉTAIRE INTERNATIONAL

Aperçu

Le Canada est une économie ouverte qui dépend dans une large mesure du commerce et des flux financiers internationaux. En conséquence, il a nettement intérêt à maintenir un système monétaire international vigoureux qui favorise la libre circulation des biens, des services et des avoirs financiers. Le FMI joue un rôle important pour assurer la stabilité du système financier mondial et la croissance économique durable à grande échelle en aidant les pays aux prises avec des déséquilibres externes insoutenables et les problèmes économiques qui s'y rattachent.

INTRODUCTION

Les institutions issues des accords de Bretton Woods, le Fonds monétaire international (FMI) et la Banque mondiale, ont été fondées à l'occasion d'une conférence tenue à Bretton Woods, au New Hampshire, en 1944. Le FMI a été créé pour promouvoir le fonctionnement harmonieux du système monétaire international, encourager le commerce et les mouvements de capitaux à l'échelle internationale et favoriser des taux élevés de croissance économique durable. Le FMI (le «Fonds») représente maintenant le pivot du système monétaire international. Il surveille les politiques économiques des pays membres, fournit des conseils stratégiques et offre une aide financière à court et moyen terme aux pays confrontés à des problèmes de balance des paiements et à d'autres difficultés économiques.

La Banque mondiale a pour but de relever le niveau de vie et de promouvoir le développement durable dans les pays en développement. En qualité de plus importante institution de développement au monde, elle offre une aide sous diverses formes aux pays en développement, notamment des prêts dans le cadre de projets, une aide technique et des conseils axés sur les politiques économiques structurelles. Le Groupe de la Banque mondiale regroupe quatre organismes : la Banque internationale pour la reconstruction et le développement (BIRD), l'Association internationale de développement (AID), la Société financière internationale (SFI) et l'Agence multilatérale de garantie des investissements (AMGI). La BIRD est couramment assimilée à la Banque mondiale (la «Banque»). L'AID est l'organisme qui aide les pays en développement les plus pauvres du monde.

Le Canada est le huitième membre en importance du Fonds et de la Banque, après les six autres pays du G-7 et l'Arabie saoudite. La participation formelle du Canada est autorisée en vertu de la *Loi sur les accords de Bretton Woods* et des accords connexes, dont l'article 13 prévoit que :

«Le ministre des Finances fait déposer devant le Parlement, au plus tard le 31 mars ou, si celui-ci ne siège pas, dans les 30 premiers jours de séance ultérieurs de l'une ou l'autre chambre, un rapport d'activité pour l'année précédant cette date contenant un résumé général des opérations visées par la présente loi et un exposé détaillé de toutes les opérations qui intéressent directement le Canada, notamment les ressources du Groupe de la Banque mondiale et les prêts qu'elle consent, les sommes souscrites et les contributions faites par le Canada, les emprunts effectués au Canada et l'obtention de biens et services canadiens.»

Les sections qui suivent portent sur les activités et opérations du FMI et de la Banque mondiale en 1995. La dernière section traite de questions intéressant ces deux institutions. Les annexes renferment des tableaux chiffrés détaillés sur les activités effectuées au cours de l'année.

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<http://www.fin.gc.ca/>



Préparé par :
Direction des finances et
du commerce internationaux
Mai 1996

1995

RAPPORT SUR LES
OPÉRATIONS EFFECTUÉES
EN VERTU DE LA LOI
SUR LES ACCORDS DE
BRETTON WOODS ET
DES ACCORDS CONNEXES

1995

DES ACCORDS CONNEXES

BRETTON WOODS ET

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REPORT ON

OPERATIONS UNDER

THE BRETTON WOODS

AND RELATED

AGREEMENTS ACT

1996

Prepared by:
International Trade and Finance Branch
March 1997



Department of Finance
Canada

Ministère des Finances
Canada

REPORT ON

OPERATIONS UNDER

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INTRODUCTION

The Bretton Woods institutions, the International Monetary Fund (IMF) and the World Bank, were founded at a conference held in Bretton Woods, New Hampshire, in 1944. The IMF was established to promote the smooth functioning of the international monetary system, encourage international trade and capital movements, and support high rates of sustainable economic growth. The IMF (or the "Fund" in the following) is now the central institution in the international monetary system. It exercises a surveillance function by monitoring members' economic policies, provides policy advice and extends short- and medium-term financial assistance to countries faced with balance of payments and other economic difficulties.

The World Bank's goal is to help raise living standards and to promote sustainable development in developing countries. As the premier development institution in the world, it provides a wide range of assistance to developing countries, including lending for projects, technical assistance and structural economic policy advice. The World Bank Group is comprised of four organizations: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The IBRD and IDA together are commonly referred to as the "World Bank" (or the "Bank" in the following). The IDA is the component that provides assistance to the world's poorest developing countries.

Canada is the eighth largest member of the Fund and Bank after the six other Group of Seven (G-7) countries and Saudi Arabia. Canada's formal participation is authorized under the *Bretton Woods and Related Agreements Act*. Section 13 of the Act states that:

"The Minister of Finance shall cause to be laid before Parliament, on or before March 31 next following the end of each year or, if Parliament is not then sitting, on any of the first thirty days next thereafter that either House of Parliament is sitting, a report containing a general summary of operations under this Act and details of all those operations that directly affect Canada, including the resources and lending of the World Bank Group, the funds subscribed or contributed by Canada, borrowings in Canada and procurement of Canadian goods and services."

The sections that follow review the activities and operations of first the IMF and then the World Bank for the year 1996. A final section deals with issues common to both institutions. The annexes contain detailed numerical summaries of the year's activities.

Roles of the IMF and the World Bank

International Monetary Fund

- Oversees the international monetary system and promotes international monetary co-operation.
- Promotes exchange stability and orderly exchange relations among member countries.
- Provides short- to medium-term financial support to members facing balance-of-payments difficulties.
- Draws its financial resources primarily from the quota subscriptions of its members.

World Bank

- Promotes economic development and structural reform in developing countries.
- Assists developing countries through long-term financing of development projects and programs.
- Provides special financial assistance to the poorest developing countries through the International Development Association.
- Stimulates private enterprises in developing countries primarily through its affiliate, the International Finance Corporation.
- Secures most of its financial resources by borrowing on international capital markets.

INTERNATIONAL MONETARY FUND

Overview

Canada is an open economy that is highly dependent on foreign trade and financial flows. Consequently, Canada has a major stake in a strong international monetary system that promotes the free movement of goods, services and financial assets. The IMF is important to ensuring a sound world financial system and broad-based sustainable economic growth through assistance to countries experiencing unsustainable external imbalances and related economic difficulties.

Benefits of Membership

IMF membership provides a number of specific benefits:

- The Minister of Finance is a Governor of the Fund and has an Executive Director on its 24-member Executive Board. This representation allows Canada to have a high-level influence on decisions taken by the IMF on specific country assistance programs and major issues affecting the world financial system.
- The IMF, through its regular surveillance of member country economies, provides Canada with an independent source of policy advice on macroeconomic policies and engages in regular dialogue on these policies with Canadian officials at Finance Canada and the Bank of Canada.
- The efforts of the IMF to ensure debtor countries abide by their obligations under Fund support programs help ensure that they repay Canadian bilateral loans and use bilateral development assistance effectively.
- Canada earns a financial return on its financial position in the IMF.
- Were Canada ever to experience severe balance-of-payments difficulties, it would have the right to approach the IMF for financial assistance.

Canada's Priorities at the IMF

Global Economic and Financial Stability

A key objective is to ensure that the IMF is able to cope with the emerging needs of the world economy and can deal with any new crises that might arise such as, for example, that which affected Mexico in late 1994. This requires that the Fund move quickly to adapt its lending facilities and policies.

Discussions continued during 1996 at the Interim Committee (which is a twice-yearly meeting of IMF Governors who have representatives on the Executive Board) and the Executive Board on a number of recommendations made at the Halifax Summit (July 1995) for reforms in IMF procedures and facilities. The key recommendations were directed at:

- identifying problems before they reach crisis proportions through a strengthening of the IMF's surveillance of national policies and financial market developments, and through fuller disclosure of this information to market participants; and
- ensuring that the Fund has adequate resources for its regular lending operations through consideration of an Eleventh General Review of Quotas, and has adequate liquidity to respond to financial emergencies through a doubling of the resources currently available under the IMF's General Arrangements to Borrow (GAB).

As follow-up to these recommendations, the Executive Board of the Fund took action over the last year in the following areas.

How the IMF Works

The IMF works like a credit union. It has a large pool of resources that it makes available in several ways to help members finance temporary balance-of-payments problems.

Members provide resources to the IMF determined by "quotas" reflecting each country's relative importance in the world economy. A country's quota in turn helps determine the amount of Fund resources that it may use if it experiences economic difficulties. At the end of 1996, the total quotas for the Fund's 181 members was SDR¹ 145.3 billion.

A member country uses the general resources of the IMF by making a purchase (drawing) of other members' currencies with an equivalent amount of its own currency. A member repurchases (repays) its own currency from the IMF with other members' currencies over a specified period of time and with interest. In this way, a member country receives credit from other members.

Members seeking financial assistance can draw on a "reserve tranche" and four "credit tranches", each amounting to 25 per cent of their quota. For access to resources beyond the first credit tranche, the member and the IMF have to reach a mutual agreement on a set of economic measures and reforms aimed at removing the source of the country's balance-of-payments difficulty and creating the conditions necessary for sustainable non-inflationary growth. Depending on the severity of the problem, these measures are agreed as part of a "Stand-by Arrangement" (SBA) or an "Extended Fund Facility" (EFF). Stand-by arrangements typically last 12 to 18 months while extended arrangements generally run for three years. Drawings of the higher tranches are generally spread over the duration of the arrangement.

Members can also use financial facilities created for specific purposes, including the Compensatory and Contingency Financing Facility (CCFF) which provides financial support to members experiencing temporary export shortfalls or other unforeseen adverse external shocks.

Concessional financing to low-income developing countries under the Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF) is made available in the form of low-interest loans with extended repayment periods.

¹ The Special Drawing Right (SDR) is the standard unit of account for the IMF's operations. It represents a weighted basket of five major currencies – the U.S. dollar, the German mark, the Japanese yen, the pound sterling and the French franc. At the end of 1996, the exchange rate was SDR 1 = C \$1.97.

Provision and publication of data. Countries that are capital market borrowers will make comprehensive data available to the public on a timely basis under the IMF's "Special Data Dissemination Standard" established in April 1996. Information on the statistical practices of members subscribing to the new standard is posted on the IMF's Data Dissemination Standards Bulletin Board (DSSB) on the Internet (<http://dssb.imf.org>). Canada was one of the first countries to subscribe to the new standard, and information on Canada's statistical practices is posted on the DSSB at <http://dssb.imf.org/country/cancats.htm>. Work on establishing a less demanding general standard for all members will continue in 1997. The new data standards will help better inform markets of financial and economic developments and strengthen Fund surveillance.

New Arrangements to Borrow (NAB). At the Halifax Summit, the Group of Seven asked the Group of Ten (G-10) and other countries with the capacity to support the international monetary system to develop financing arrangements aimed at doubling the amount of resources currently available under the General Arrangements to Borrow (a credit arrangement which backstops the IMF's regular resource base). A G-10 Working Group, chaired by Canada, undertook consultations with potential new participants.

New Arrangements to Borrow

The main features of interest of the New Arrangements to Borrow are:

- *participating countries will make loans to the IMF when supplementary resources are needed to forestall or cope with an impairment of the international monetary system, or deal with an exceptional situation that poses a threat to the stability of the system.*
- *25 countries have agreed to lend up to SDR 34 billion (about C\$67 billion) to the Fund in the case of financial emergencies.*
- *Canada's share in the arrangement is 4.1 per cent, in the form of a commitment to provide non-budgetary loans to the IMF from its international reserves.*
- *the NAB will enter into force when it has been ratified by potential participants with credit arrangements amounting to no less than SDR 28.9 billion, including the five members with the largest credit arrangements.*
- *the NAB does not replace the General Arrangements to Borrow (GAB), which will remain in force. However, the NAB will be the first and principal recourse of the IMF in the event of a need for supplementary resources.*

The Fund's Executive Board approved the New Arrangements to Borrow in early 1997 effectively doubling the resources, or credit, currently available to the IMF through the GAB. The resources will be provided by the G-10 countries, other industrial countries and a group of key developing countries judged to have the capacity to support the international financial system. The broader participation in the NAB underlines the changing nature of the global economy and the willingness of emerging economies to share responsibility for managing the international monetary system.

Quota Review

The Fund must have adequate resources to maintain its effectiveness as a monetary institution addressing temporary balance-of-payments problems through support of sound adjustment policies. Reviews of Fund quotas are conducted at regular intervals to replenish its regular or quota-based resources. The last quota increase came into effect in 1992.

Work on the next review of IMF quotas (i.e. the Eleventh General Review) is now underway. The two main issues under consideration are the overall size of the increase and how it should be distributed. Discussions have focused on changes in the world economy since the last increase in quotas and on the possible demand for IMF resources through 2002. The Eleventh Review is currently scheduled for completion by March 1998.

SDR Allocation

For more than two years, the IMF has been examining ways to help redress inequities in the present distribution of SDRs arising from the fact that a number of new members, including Russia and the other former centrally planned economies, have not participated in previous allocations. At its April 1996 meeting, the Interim Committee asked the Executive Board to reach a consensus on an approach that would ensure that all members receive an equitable share of cumulative SDR allocations.

Special Drawing Rights (SDRs)

- *The SDR is an international reserve asset created by the IMF and allocated periodically to its members as a supplement to their foreign currency and gold reserves.*
- *New SDR allocations require a determination by the IMF Board of Governors that there is a global need to supplement existing reserve assets.*
- *SDRs were first allocated to members in 1970. There have been two other allocations, the most recent undertaken in 1981. The outstanding stock of SDRs currently totals SDR 21.4 billion.*
- *Canada has received allocations of SDR 779.3 million.*
- *The 38 members that have joined the IMF since 1981 have received no allocations of SDRs.*

The Fund's Executive Board has subsequently agreed in principle to a one-time special allocation through an amendment of the Fund's Articles of Agreement. The allocations to be provided to member countries will be related to a common "benchmark" of cumulative allocations to present quotas. The Executive Board will hold further discussions to determine the actual benchmark and complete work on the SDR issue.

Co-operation Agreements with the WTO

Globalization of economic activity results in greater interdependence among trade and economic and financial policies. This growing interdependence led the IMF and World Bank in late 1996 to conclude co-operation agreements with the World Trade Organization (WTO). The agreements formalize and build on the collaborative relationships that each had with the contracting parties to the General Agreements on Tariffs and Trade (GATT).

All three organizations are committed, as part of their mandates, to promoting policies that encourage and support trade liberalization. The IMF does this through policy advice and lending to achieve macroeconomic stability and structural adjustment. The World Bank assists in the design and implementation of trade reforms. The WTO provides a forum to enforce the rights and obligations of members in the multilateral trading system.

Such co-operation agreements help achieve greater coherence in global economic policy, help establish a level playing field for global trade, and help assist developing countries adopt policies to support growth and reduce poverty. The agreements strengthen coherence through institutional consultations and the exchange of documents and information.

Transparency and Accountability

Greater information on the activities of the IMF contributes to greater public understanding of the institution. For this reason, Canada has supported measures to enhance the transparency and accountability of the Fund's operations. The Fund has responded to the concerns of members for ensuring transparency by making available significantly more information on its activities. This includes publication of country reports, increased coverage of the Fund's annual consultations with member countries, and opening of the archives for documents that are more than 30 years old.

Canada has placed great importance on the establishment of an independent evaluation process which can impartially assess IMF activities on a regular basis. In this context, in October 1996, the IMF launched an evaluation by independent external experts of several aspects of ESAF-supported programs. The evaluation will concentrate on three topics: developments in countries' external position during ESAF-supported programs; social policies and the composition of government spending during ESAF-supported programs; and the effect of countries taking "ownership" of ESAF-supported programs. The experts are expected to complete their report by the end of 1997.

How to Access Information from the IMF

The IMF's Publications Services provide a wide variety of Fund documents on the policies and operations of the IMF as well as world financial and economic developments. These include:

- *IMF Annual Report*
- *World Economic Outlook*
- *IMF Staff Country Reports*
- *International Financial Statistics*
- *Annual Report on Exchange Arrangements and Exchange Restrictions*
- *Press Releases*
- *IMF Survey*

*The Publications Centre is located at 700 19th Street, N.W., Washington, D.C., U.S.A. 20431
Phone: (202) 623-7430; Fax: (202) 623-7201
Internet address: publications@imf.org*

Administrative Efficiency

Canada has been among those urging the Fund to conduct its own administrative operations in a fiscally responsible manner. Canada has regularly pressed the Fund to seek more cost-effective ways to deliver its programs and has opposed increases in staff salaries. Fund management has responded through numerous measures to streamline Fund activities, constrain administrative expenses and reduce staffing levels.

Lending Developments in 1996

A core activity of the Fund is to provide short- and medium-term financial assistance to members faced with balance-of-payments difficulties. The objective is to enable countries facing such difficulties to correct temporary payments imbalances with a minimum of disruption to the international monetary system. The provision of financing from the IMF, and the additional financing that an arrangement with the Fund often attracts from other sources, enables countries to undertake smoother economic adjustment.

At the end of 1996, the IMF had lending arrangements worth SDR 30.5 billion in place for 61 member countries (See Annex 1). Drawings by these countries in 1996 amounted to SDR 6.0 billion, a considerable drop from the unprecedented level of 1995 when large credits were extended to Mexico and Russia.

Table 1
IMF Resource Flows

	1995	1996
	(in SDR billions)	
Total purchases	18.4	6.0
Of which:		
Stand-by arrangements	14.4	2.5
Extended Fund Facility	2.0	2.6
Compensatory and Contingency Financing Facility	0.0	0.2
Structural Adjustment Facility and Enhanced Structural Adjustment Facility	1.4	0.7
Systemic Transformation Facility	0.6	0.0
Total repurchases	6.6	5.1
Net purchases	11.8	0.9

The IMF and Russia

On March 26 1996, the IMF approved a three-year Extended Fund Facility for Russia worth SDR 6.9 billion (US\$10 billion). The program is designed to support the government's medium-term macroeconomic adjustment program aimed at laying the basis for sustained economic growth by reducing annual inflation to single digits and achieving a viable balance-of-payments position. The IMF's loans under the EFF are disbursed on a monthly basis, following a satisfactory review of policy performance and the overall economic situation by the IMF staff.

While progress under the EFF-supported program has been generally positive, some difficulties have been encountered. In the first half of 1996, federal revenues were 40 per cent below target, forcing large spending cuts relative to commitments made in the budget and still leaving higher-than-targeted monthly budget deficits. The recent health problems of President Yeltsin, and the associated uncertainty, has also contributed to delays in introducing key structural reforms.

Despite these setbacks, five years of reform supported by the IMF and other International Financial Institutions (IFIs) have created the foundations of a market economy and set the stage for a resumption of economic growth. Although officially reported real GDP contracted by a further 5 to 6 per cent in 1996, large and growing informal markets have taken root throughout Russia and much of this activity is excluded from GDP. The continuation of prudent macroeconomic policies, together with the completion of the privatization program and other key structural reforms, are projected to lead to a rapid recovery in economic growth over the next few years.

Lending increased substantially under the Extended Fund Facility in 1996 – mainly to Russia. Large credits were also provided to Algeria, Argentina, Ukraine and Venezuela under stand-by and extended arrangements. Lending declined under the IMF's concessional facility, the Enhanced Structural Adjustment Facility.

Use of the Compensatory and Contingency Financing Facility, one of the Fund's other special purpose facilities, jumped substantially owing to a disbursement to Algeria. Access under the Systemic Transformation Facility (STF), a temporary facility created to help Russia and other former centrally planned countries make the transition to market economies, expired at the end of 1995.

Managing Canada's Interests at the IMF

The Minister of Finance is Canada's Governor at the IMF and is responsible for the management of Canadian interests at the Fund. The Minister exercises influence on IMF issues through interventions at the spring and fall meetings of the Interim Committee, his plenary speech at the IMF/World Bank annual meetings and through periodic meetings with the Managing Director of the Fund. (The Minister's speeches are available on Finance Canada's Home Page located at <http://www.fin.gc.ca>.) The Governor of the Bank of Canada is Canada's Alternate Governor of the IMF. The Governor also attends the spring and fall meetings of the Fund.

The management of Canada's interests in the ongoing work of the IMF is delegated by the Governor to the Executive Director, Mr. Thomas A. Bernes, Canada's representative on the Executive Board. Mr. Bernes is one of 24 Executive Directors. In addition to Canada, he represents 11 other countries (Ireland and 10 Caribbean countries) which form a constituency at the Executive Board. Of the 24 members of the current Executive Board, 12 are from developing or transition countries and 12 from industrial countries. As the main decision-making body of the Fund, the Board normally meets three times a week.

The Department of Finance co-ordinates Canadian policy advice on IMF issues and Canada's operational interests in the IMF. The Bank of Canada also works closely with the Department of Finance in providing advice on issues of interest to Canada's Executive Director. Other involved departments and agencies include the Department of Foreign Affairs and International Trade and the Canadian International Development Agency (CIDA). Within the Department of Finance, the International Finance and Economic Analysis Division is specifically responsible for conducting analyses and preparing advice on the policy issues and specific country programs that are brought before the Executive Board.

Parliament is informed of the activities and operations of the Bretton Woods institutions through the tabling of the Annual Report on the operations of the Bretton Woods institutions, the communiqués of the Interim and Development Committees and by appearances of the Canadian Executive Directors and departmental officials before parliamentary committees.

Canada's Voting Record

Since most decisions at the Fund are taken on a consensus basis, formal votes by Governors and the Executive Board are rare. Canada attempts to influence the development of Fund policy proposals before they are brought to the Board (often through the circulation of memoranda outlining Canadian positions) or to influence other members in the course of Board discussions. In 1996, Canada voted against a proposal to increase the salaries of Executive Directors and opposed an increase in IMF staff salaries

Canada's Office at the IMF

In addition to the Executive Director, Canada's office is staffed by a Canadian advisor and two technical assistants. Ireland staffs the Alternate Director's position and the Caribbean countries occupy a second advisor's position.

The primary responsibility of the Executive Director's office is to represent the interests of Canada and the other members of the constituency at the Fund's Executive Board. The office participates in the Board discussions of a wide variety of policy, operational and administrative matters, including surveillance issues and country assistance requests and reviews.

Structure of the Executive Director's Office

Executive Director: Mr. Thomas A. Bernes

Canadian Advisor: Mr. Mostafa Askari

Canadian Assistant: Mr. Jeff Chelsky

Canadian Assistant: Mr. Christoph Duenwald

Phone: (202) 623-7778; Fax: (202) 623-4712

Address: 11-100, 700 19th Street, N.W., Washington, D.C., U.S.A. 20431

Canada's Financial Participation

Canada's financial participation in the IMF consists primarily of its quota subscription. Canada's quota is SDR 4,320.3 million, or about 3 per cent of total quotas. Our quota subscription is an asset that is made available to the Fund partly in Canadian dollars and partly in reserve currencies, such as U.S. dollars or SDRs. These latter non-Canadian dollar amounts continue to be part of Canada's foreign exchange reserves. As an asset, Canada's quota subscription is not recorded as an expenditure item in the budget of the Canadian government.

Only a tiny portion of the Canadian-dollar part of our subscription is actually held in cash by the IMF. The balance is held by the Bank of Canada (in the form of demand notes) which are available to the Fund in the event it needs to draw upon additional resources. Canada earns interest on its quota subscription when the Canadian dollar is used in Fund lending operations – i.e. drawn by other members. In 1996, Canada received SDR 19.0 million on its net creditor position in the IMF.

At the end of the year, Canada's holdings of SDRs amounted to SDR 812.4 million, or 104.2 per cent of our cumulative allocation of SDRs. In 1996, Canada held SDRs in an amount greater than our allocation, and so earned net interest income of SDR 0.8 million². This income, and the net income from our net creditor position with the Fund noted above, are paid into the Government of Canada's Exchange Fund Account, adding to our foreign exchange reserves.

Table 2

Canada's Financial Position in the IMF

	December 31, 1996	December 31, 1995
	(SDR millions)	
Quota	4,320.3	4,320.3
Fund holdings of Canadian dollars	3,467.5 ¹	3,484.2 ¹
Reserve position in the Fund	852.8 ²	836.2 ²

¹ In accordance with Fund regulations, at least 0.25 percent of Canada's quota is held by the IMF in a Canadian dollar cash deposit at the Bank of Canada. The Fund's remaining Canadian dollar holdings are in the form of non-interest-bearing demand notes, also kept by the Bank of Canada.

² This is the amount Canada is entitled to draw on demand from the IMF for balance-of-payments purposes. Our reserve position in the Fund is the result of both the portion of our quota subscription made available to the Fund over time in reserve currencies and the use of the Canadian dollar in Fund financial transactions with other members. As the name suggests, our reserve position in the Fund is a part of Canada's official foreign exchange reserves.

² When a member's holdings of SDRs is greater (lesser) than its cumulative allocation, that member (the Fund) receives interest on the difference.

In 1996, in line with commitments, Canada made further contributions to the IMF's Enhanced Structural Adjustment Facility. The facility provides financial support on concessional terms to low-income countries facing protracted balance-of-payments problems. Canada's commitment to ESAF is a loan of SDR 500 million and a grant of approximately SDR 190 million. At the end of 1996, loan payments under these arrangements totalled SDR 275.5 million and subsidy contributions equalled SDR 63.4 million.

Canada is also a participant in the General Arrangements to Borrow, the credit arrangement established by G-10 industrial countries to supplement the Fund's regular resources in the event of financial crises. Canada's GAB commitment is the equivalent of SDR 892.5 million. This line of credit has not been used in recent years but continues to provide an important backstop for the Fund's operations in the event of a financial emergency. As noted above, Canada is also committed to participating in the New Arrangements to Borrow (NAB) when the facility becomes effective.

Challenges Ahead

A key challenge for the Fund is to ensure that its mission meets the needs of the changing global economy. In addition, the Fund must continue to provide support to members with balance-of-payments problems, including the heavily indebted poor countries. To meet these challenges:

- The IMF requires sufficient resources for its regular lending operations. This underlines the importance of obtaining an adequate increase in Fund quotas under the Eleventh General Review of Quotas. Efforts should be made to better align members' quotas with their relative positions in the world economy.
- The IMF should make an effective contribution to a comprehensive debt strategy by ensuring that it has sufficient resources to continue to finance the Enhanced Structural Adjustment Facility for the benefit of the heavily indebted poor countries. In addition, further efforts to establish a self-sustained ESAF for the benefit of all low-income countries should continue.
- With the vastly growing importance of capital flows in the world economy, the Fund should critically examine whether it can assume a greater role in encouraging freedom-of-capital movements.

THE WORLD BANK

Overview

Membership in the World Bank affords Canada an important voice on key development issues in the world's premier multilateral development bank. With 180 members and loans and credits to almost 90 developing member countries in fiscal year 1996, the World Bank has a far-reaching impact on global development. It assists members, both developing countries and countries in transition from planned to market economies, by providing concessional assistance and access to world financial markets for development purposes; in addition, it advises on policy issues crucial to improving members' longer-term development prospects. In its 1996 fiscal year, the World Bank provided loans and credits to these countries of over US\$21 billion (see Annex 2). In 50 years of existence, it has provided over US\$377 billion in loans to the developing world (see Annex 3).

Many of the Bank's members, both developing countries and countries in transition, continue to face a tremendous challenge in raising the living standards of their populations. However, the Bank's support has been instrumental in transforming a number of countries from dependence towards greater self-reliance. Where countries have established an appropriate enabling environment, private capital is stepping in to play an increasingly important role in helping to finance future growth. The World Bank continues to play an important catalytic role in encouraging the use of private capital for development.

Bank Reforms Take Off in 1996

In his second year in office, President Wolfensohn has accelerated his program of far-reaching reforms in all areas of the Bank. Priority has been placed on increasing development effectiveness by enhancing the quality and impact of the Bank's operations. To this end, further steps were taken to make the Bank a more client-focused, better-managed and more responsive organization, better able to meet evolving global challenges. Canada is giving its strong support to President Wolfensohn's efforts to bring about real change at the Bank.

Implementing Change in 1996

During 1996, President Wolfensohn continued his ambitious program of change within the World Bank Group to maximize the institution's contribution to poverty reduction and sustainable growth in developing countries.

- *To better disseminate lessons of experiences across the Bank, the President introduced a fundamental change in the way the Bank operates. Staff were reorganized on the basis of sectoral knowledge networks, rather than staff functions, to ensure better sharing of development best-practices.*
- *To improve the exchange of information with clients, a number of key country programs decentralized their operations to the field. Non-governmental organization (NGO) liaison positions were established in many Bank missions to allow staff to benefit from NGO experience on the ground. Thirty-five such positions were in place by the end of 1996.*
- *To support efforts to improve the Bank's overall portfolio quality, the Quality Assurance Group (QAG) was established in February 1996. This group reviews projects and provides advice and assistance to Task Managers to raise project quality at entry and to improve the management of ongoing projects.*
- *The Bank-wide Portfolio Improvement Program was launched in order to better tie project-specific and systemic portfolio management efforts together. The Bank also introduced new measures to assess the health of its lending portfolio, making it easier to identify problematic projects early enough to permit restructuring.*

Benefits of Membership

- Canada's voting share of about 3 per cent in the World Bank gives us a seat on the Bank's 24-member Executive Board and on the joint IMF/World Bank Development Committee. Canada has the opportunity, both at the Executive Board and in discussions with Bank staff, to provide direct input into the formulation of Bank policies and operational decisions. Canada and other shareholders provide the Bank with guidance which is ultimately aimed at improving developing countries' economic, social and environmental performance.

- Participation in the Bank affords an opportunity to influence international development policy issues of concern to Canadians. Input into the Bank's annual research report – the *World Development Report* (WDR) – provides an important vehicle by which Canada can influence the global debate on poverty, labour, health and the environment. For example, Canada hosted a meeting in Toronto in March 1996 which brought together the Bank WDR team on Transition Economies with members of the Canadian private sector, academic and legal communities to discuss Canada's experience in the former Soviet Union, Central and Eastern Europe, and East Asia.
- Canada benefits from the Bank's leadership role in bringing together donors to respond quickly to emergency situations in countries in post-conflict situations. For example, Canada and other donors have worked closely with the World Bank to assemble an emergency reconstruction assistance package for Bosnia. In the context of the Middle East peace process, Canada has been closely involved with the Bank's efforts to mobilize resources for the West Bank and Gaza. Through such co-operation, Canada's influence can be leveraged beyond what could be achieved through its bilateral programs.
- Canada benefits from the role the World Bank plays in bringing together donors for Consultative Groups (CGs) to provide assistance to specific countries in need. Through CGs, donor countries are able to better co-ordinate their policy advice and operational programs to provide more coherent advice to borrowers and to maximize the impact of their operations. Last year, the World Bank participated in 24 separate CGs and donor groups. Also of benefit is the close collaboration among the Bank, CIDA and other donors on major international programs, such as the Special Program of Assistance for Africa and the Global Environment Facility.
- Canadian aid agencies draw heavily on the Bank's research and policy work to enrich their understanding of international development. A wide variety of CIDA programs also benefit significantly from direct access to Bank staff and expertise.
- Finally, Canadian companies and individuals enjoy substantial procurement benefits from membership in the World Bank Group. Disbursements in fiscal year 1996 for Canadian goods and services totalled US\$225 million, bringing total cumulative disbursements to more than US\$3.2 billion by the end of that fiscal year.

How the World Bank Group Works

The World Bank Group is made of up of four complementary, but distinct entities: the International Bank for Reconstruction and Development; the International Development Association; the Multilateral Investment Guarantee Agency; and the International Finance Corporation .

The IBRD and IDA (together commonly known as the World Bank) both provide funding for investment projects and for adjustment, or economic reform, operations. However, the IBRD lends funds on commercial terms (slightly above a market interest rate – the London Interbank Offered Rate (LIBOR) to the better-off borrowing members, while IDA provides interest-free credits to the poorest borrowers. The IBRD gets its funds primarily from borrowing on international markets, on the basis of its triple-A credit rating, whereas the IDA receives grant funding from donors (details are provided below). In effect, the IBRD on-lends to borrowing countries at a rate of interest much below that which they could secure on their own borrowings.

The IFC supplements the activities of the IBRD and IDA by undertaking investments on commercial terms in productive private sector enterprises. The IFC provides such services as direct private sector loans, equity investments, resource mobilization and technical assistance. MIGA's mandate complements that of the IFC: it promotes private foreign direct investment in developing countries, primarily through the issuance of insurance against non-commercial risk, such as the risk of currency inconvertibility during civil conflict.

Canada's Priorities at the World Bank

Developmental Priorities

Despite considerable progress in improving living standards worldwide, over three billion people remain in dire poverty. Canada has long been a key player in international efforts to assist the poorest and strongly promotes poverty reduction as the key priority of the World Bank. The Bank has taken an increasingly sophisticated (or "integrated") view of poverty reduction in recent years; in doing so, it has recognized that poverty reduction cannot be addressed in isolation. Private sector development, good governance and environmentally sustainable policies are just a few of the factors which need to be considered in designing strategies to help improve the living standards of the poor in member countries.

Lending for the social sectors has been a focal point of the Bank's poverty-reduction efforts in recent years. Human resource development (HRD) lending, particularly for primary health and education, has grown in importance; it has increased from an average of about 5 per cent in the 1980s to about

18 per cent over the last five years. Average lending for HRD during this period totalled more than \$4 billion annually. The Bank is now the world's single largest source of financing for investment in human capital.

The Bank, and particularly the IDA, has also increased its lending targeted directly to the poor under the Program of Targeted Interventions (PTI). Over the IDA 10 period (fiscal year 1994-1996), PTI grew to 52 per cent of IDA investment lending compared to 41 per cent under the IDA 9 period (fiscal year 1992-1994).

Average Annual IDA Lending for the Program of Targeted Interventions

Type of borrower	FY 92-94	FY 94-96	% Change
	(US \$millions)		
IDA-only	751	1,112	48
Blend borrowers	1,183	1,396	18
Total	1,934	2,507	30
Memo items:			
IDA investment lending	4,774	4,793	0
IDA-only ¹	2,353	2,630	12
Blend borrowers ²	2,421	2,164	-11
PTI's share in Investment lending	41%	52%	

¹ These are the poorest borrowers who receive only IDA funding.

² These borrowers receive a blend of IDA and IBRD funds.

Private Sector Development. Canada has encouraged the increasingly co-ordinated approach to private sector development that has developed within the Bank Group over the past year. The Bank, the IFC and MIGA are now working closely together to provide more integrated private sector support and policy advice. Business innovation programs are now under way in all the Bank's regional offices. This reflects the growing recognition worldwide of the critical role played by the private sector in supporting long-term sustainable development. The Bank supports about US\$25 billion of private sector finance a year; the Bank also leverages about US\$4 billion in private investment a year through "financial intermediation" loans it makes of about US\$2 billion a year.

The Bank put greater emphasis on new financial mechanisms in 1996 to assist in private sector development. The Bank expanded its partial risk and partial credit guarantee programs and integrated these instruments better with its traditional lending activities. These guarantees are particularly important in promoting infrastructure development; an estimated US\$200 billion is currently needed by developing countries for infrastructure alone – an amount far above the capacity of governments and international agencies to finance.

Such long-term funding volumes can only be supported by greater reliance on financing from the private sector. The Bank is increasingly using guarantees to increase developing countries' access to international and domestic capital markets.

Another example of the private sector's role in development is the growing impact of microcredit operations (loans of relatively small amounts of money made to the poor by grassroots organizations such as the Grameen Bank in Bangladesh). With a small investment, these organizations have been successful in improving the living conditions of the poor, particularly women, in developing countries. Evidence from these operations is compelling; not only does it show that the poor are capable of helping themselves, but it underlines that they can be very good credit risks. Members of the Consultative Group to Assist the Poorest (CGAP), including the World Bank and Canada, met several times in 1996 to exchange views on best practices and to explore opportunities to augment resources of existing micro finance institutions.

Microcredit: The Consultative Group to Assist the Poorest

Work in CGAP progressed well over fiscal year 1996, with some 57 initial project requests from NGO and microenterprise-funding facilities reviewed and 14 approved for implementation. CGAP also provided training and information services on best-practices to policymakers and practitioners in the field of microcredit. CGAP has several key objectives:

- *to increase the level of resources available to the poor in developing countries through microfinance programs;*
- *to provide donors with a vehicle to disseminate and exchange information and lessons of experience on microfinance; and*
- *to improve donor co-ordination in the provision of these services.*

Through this work, CGAP seeks to strengthen the ability of microfinance organizations with a proven track record to provide assistance to the poor through a US\$30 million facility from the World Bank.

Good Governance. Over the past year, Canada continued to press the Bank to become more active in promoting good governance in developing countries. The World Bank's response has been positive. Bank staff now encourage more effective management of public expenditures and more participatory and open approaches in decision-making in borrowing countries. Canada has been particularly concerned about unproductive expenditures, particularly excessive military expenditures. At a time of scarce donor resources, the Bank's clients can ill afford to waste resources on unproductive spending.

Recognizing this problem, the Bank has recently issued a note "Bank Work on Military Expenditures" for staff guidance. Among other things, the Bank is requesting better information from borrowers on military-related aggregate expenditures to aid in its public expenditure reviews. It is also encouraging to see that a number of countries are seeking Bank assistance in the conversion of military-run industries (China, the Czech Republic and Hungary), while others, including Angola, Ethiopia and Uganda, have asked for help with demobilization and demilitarization.

During the recent IDA negotiations, donors underlined that lending decisions should increasingly be based on a borrowing government's performance in such areas as reducing unproductive expenditures. The recent IDA review for the 1994-1996 period indicates that lending is, in fact, being linked more closely to country performance.

The Bank's Economic Development Institute (EDI) has also been using its public sector reform program to build consensus in client countries to work against corrupt practices. With funding from CIDA and other donors, EDI has been working with a variety of local groups in Tanzania and Uganda to heighten awareness of the damage that systemic corruption can cause and of the practical steps for combating it.

Environmentally Sustainable Development. Canada has long been a vocal advocate of the need for the Bank to better integrate environmental considerations into its operations and is a keen supporter of the Bank's recent efforts. The establishment of the Environmental Sustainable Development (ESD) vice-presidency in 1993 has been instrumental in supporting this objective. In fiscal year 1996, the Bank committed US\$1.6 billion and leveraged another US\$1.6 billion from other sources for 20 new environmental projects. To better support this work, the Bank completed the *Second Environmental Assessment Review: the Impact of Environmental Assessment* which focuses on the quality of EAs and their impact on project design and implementation. This document should assist Bank staff and policymakers in making the EA an even more effective tool in integrating environmental concerns into Bank operations.

Transparency and Accountability

Transparency and accountability are fundamental to ensuring the longer-term sustainability of the Bank Group's operations. Canada has been a major proponent of increased openness at the Bank. The Bank has responded to concerns from shareholders by making public a growing number of documents on operations, both from the IBRD/IDA and the IFC.

Transparency also requires better consultation with beneficiaries. Canada and other donors have pushed the Bank and borrowing countries to find ways to improve consultations with local peoples in beneficiary countries, not only in the design and implementation of projects, but also in the preparation of key policy documents such as country assistance strategies. In 1996, about one-third of the Bank's projects benefited from consultations with a range of interested parties in beneficiary countries.

Canada was one of the major supporters of the work of the Inspection Panel over the past year. The Inspection Panel was created to help the Bank become more accountable to stakeholders with concerns about the impacts of individual projects. Since its inception, the Panel has received five formal requests for inspections; it recommended an investigation of one of these, the Rondonia Natural Resources Management Project, in 1996.

Several new initiatives have been taken over the past year to better disseminate information about the Public Information Centre's resources, including a brochure on PIC services as well as an electronic version on the Internet. In fiscal year 1996, the PIC received more than two million requests for information, a fivefold increase over fiscal year 1995. The greatest demand came from the business community.

How to Access Information from the World Bank

The World Bank's Public Information Centre (PIC), which became operational in early 1994, provides a wide range of Bank documents, including:

- *Project Information Documents (PIDs)*
- *Staff Appraisal Reports (after approval by the Board of Executive Directors)*
- *Country Economic and Sector Work Documents and Sectoral Policy Papers*
- *The Annual Report and the World Development Report*
- *The Monthly Operational Summary and International Business Opportunities*
- *Environmental Data Sheets, Environmental Assessments, Environmental Analyses, and Environmental Action Plans*
- *World Debt Tables*
- *Operation Evaluation Department Précis*

The Public Information Centre is located at 1776 G Street, N.W., Washington, D.C., U.S.A. 20433.

Phone: (202) 458-5454

E-mail address: pic@worldbank.org

Additional up-to-date information is also available on the Internet (<http://www.worldbank.org>) in the following categories:

1) general facts; 2) current events; 3) research; 4) Inspection Panel; and 5) new developments.

Getting Results

Understanding the development impact of the Bank's operations is crucial to ensuring that the Bank's policy objectives are being met. Shareholders have come to realize that objective development impact indicators are critical to ensuring that funds are being used effectively. Discussions on how to develop such indicators have taken place in IDA Deputies' discussions, at the Multilateral Development Bank Task Force and within the Executive Board.

A range of sector-specific project-performance indicators have been developed. Currently, 17 sector "first edition" notes on indicators are available, covering the environment, poverty reduction, public sector management and technical assistance. A handbook has also been prepared to assist managers in utilizing the indicators in project design and monitoring.

Performance Indicators: Poverty Reduction

The Wapenhans Report on improving portfolio quality emphasized the importance of developing a better understanding of the impact of the Bank's operations by setting clear performance goals. Since poverty reduction is the Bank's overarching objective, this is one of the key sectors where the Bank has been working to establish meaningful performance indicators.

Three classes of indicators have been developed: (i) input indicators; (ii) process or output indicators; and (iii) impact indicators.

The following provides some simple examples of indicators for a secondary school project for girls.

Input Indicators: number of trainees trained; amount of credit disbursed; numbers of schools to which funds were disbursed.

Process/Output Indicators: number of graduating students; number of facilities installed/repared.

Impact Indicators: number of girls employed from project schools.

Involving NGOs in Decision-Making

NGO involvement is now firmly rooted in the Bank's operations. President Wolfensohn has been a major catalyst in the Bank's outreach program with NGOs; particular emphasis has been placed on the importance of expanding partnerships with civil society. About 43 per cent of Bank projects across all major sectors included some form of NGO participation in fiscal year 1996. NGOs have increasingly participated in the design stage of project preparation as well as in the implementation phase. The Bank has recently started to

compile a "List of World Bank-Financed Projects with Potential for NGO Involvement", which includes a number of upcoming Bank projects seeking NGO involvement. NGOs are also playing a stronger role in the Bank's economic and sector work, particularly in working with borrowing countries on the preparation of National Environment Action Plans and poverty assessments. NGOs' central role in the Global Environment Facility (GEF) is also noteworthy.

One key venue for ongoing dialogue is the NGO-World Bank Committee. Membership consists of senior Bank managers and 26 NGO leaders from around the world (15 from developing countries). Canada's current representative on this committee is Ruth Remple from the Inter-Church Coalition on Africa. NGOs have also participated in a broad range of other discussions over the past year, including multilateral debt, the IDA, private sector development, as well as the new joint Bank-NGO Task Force on Structural Adjustment. A Bank-NGO working group was also established to examine disclosure and dissemination of Bank information.

Within Canada, NGOs have participated in a regular series of government interdepartmental meetings on multilateral debt, the IDA and microcredit. This consultation has proven useful for advancing Canadian interests at the Bank.

Key Developments in 1996

The Lyon Summit. The 1996 Lyon Summit brought G-7 leaders together to examine critical international economic and financial issues. One of the major issues for discussion was follow-up to the Halifax Summit recommendations on reform of the international institutions, including the World Bank.

Canada/World Bank Poverty Semina. In November 1996, the Canadian government hosted a major seminar in Ottawa on the World Bank's report *Poverty Reduction and the World Bank*, which allowed senior Bank Management to hear directly from interested Canadians on the Bank's progress in working towards its overarching objective of poverty reduction. The report provided an overview of the Bank's experience on poverty reduction and looked ahead at the challenges of better meeting the needs of the poor. Human resource development, particularly primary health and education, were identified as key to improving the access of the poor to economic opportunities.

IDA 11 Negotiations. Negotiations on the 11th Replenishment of the IDA concluded in Tokyo in March 1996. (Details are provided below.)

Partnerships with other International Organizations. Following up on Halifax Summit recommendations, the Bank has increasingly been reaching out to co-ordinate better with other international institutions, including the multilateral development banks (MDBs), the WTO and the United Nations (UN) system. In December 1996, the Bank and the WTO signed an Agreement to formalize co-operation, as part of their joint efforts to better integrate developing countries into the global economy.

The President and the heads of the regional development banks held their first joint meeting in February 1996 and now plan to meet every six months to exchange information and experiences on key development issues. A working group on evaluation methodology has recently been established among the MDBs to better harmonize evaluation standards for assessing operational performance and development results. World Bank co-operation with the UN on data collection and assessment is also expanding, as are joint assistance programs in post-conflict countries.

The World Bank: Emerging as a "Knowledge Bank"

The emergence of a technology-driven global knowledge economy means that economic growth in the 21st century will increasingly depend on a country's ability to build and mobilize knowledge capital to complement physical and financial capital. The increased importance of knowledge capital, combined with the growing importance of private capital investment and technology-driven information flows, poses new challenges and opportunities for developing countries and for the international development community.

In 1996, President Wolfensohn introduced a plan to begin shifting the Bank towards becoming more of a "Knowledge Bank". He initiated an international effort to harness the information revolution for poverty alleviation and sustainable development. He has called for a "Global Knowledge Partnership", a public-private collaboration devoted to helping the world's poor share the benefits of, and become full partners in, the emerging global knowledge economy.

To help launch this Partnership, and to explore specific strategies for mobilizing knowledge capital in support of development, the World Bank and the Government of Canada will co-host a major international conference on "Knowledge for Development in the Information Age" in Toronto from June 22 to 25, 1997.

Administrative Efficiency and Cost Effectiveness

Ensuring the efficiency and the effectiveness of the Bank's operations has long been a key objective of Canada. But efficiency and effectiveness entail more than just budget-cutting. They require setting clear priorities and being more efficient and strategic in the delivery of services. The Bank needs to operate in those areas where its assistance is needed and where it has a clear comparative advantage. It needs to reconsider its role in areas where the private sector or other MDBs may be better placed to provide assistance. Over the past year, the Bank has undertaken a major review of its activities and is developing a "strategic compact" which will better link resource allocation to priority areas.

Managing Canada's Interests at the World Bank

The Minister of Finance, as Canada's Governor of the World Bank, is responsible for the management of Canada's interests at the Bank. The Minister exercises his influence through exchanges of views at the Development Committee and annual meetings and through periodic discussions with the President of the World Bank. For example, at the annual meetings in 1996, Governors approved an initiative to help the poorest countries with unsustainable debt burdens through the Initiative for Heavily Indebted Poor Countries (further information is provided below). The President of CIDA is Canada's Alternate Governor for the World Bank.

The day-to-day handling of Canada's diverse interests at the Bank is delegated by the Governor to the Executive Director, currently Mr. Len Good. Mr. Good is one of 24 Executive Directors; he represents Canada and 12 other countries (Ireland and 11 Caribbean countries) at the Executive Board. The Board is currently made up of 24 Executive Directors; 12 are from developing and 12 from developed countries.

One of the important functions played by Mr. Good is his oversight of the Bank's operations through his membership on the Committee on Development Effectiveness (CODE), which was established in 1994. The Office of the Canadian Executive Director is one of eight members of CODE, which examines project implementation and selected policy issues in detail. The Canadian office has actively participated in CODE with a view to understanding better the difficulties which Bank staff encounter in project implementation, and the challenges facing staff in being responsive to the needs of locally affected communities in developing countries. Emerging from this effectiveness evaluation are changes in Bank procedures, and occasionally, in the Bank's general approach to project implementation.

Canada's Voting Record at the Board

Due to the consensus-seeking nature of the Executive Board, it is rare that decisions are taken to a vote. Encouraging efforts to reach consensus among Board Members is of prime importance. Occasionally, however, matters are taken to a vote. Over the past year, Canada voted against three proposals: 1) a request for salary increases for staff; 2) a request for salary increases of Executive Directors; and 3) an IFC project that provided funds for the Danish Investment Fund for Central and Eastern Europe. Canada also abstained on the Zambia Economic Adjustment Loan.

Furthermore, Canada and other shareholders frequently discuss issues and raise concerns directly with Management well before projects come to the Board. In this way, a number of projects are significantly modified before final Board approval.

Canada has also developed a strong working relationship with the Economic Development Institute. An existing EDI trust fund, to which Canada contributed, has supported some very innovative work on governance, including work with the Parliamentary Centre in Ghana and a new corruption sensitization campaign for Tanzania and Uganda.

Canada's Office at the World Bank

In addition to the Executive Director, the office has two Canadian advisors and two executive assistants. These officers are in constant communication with the Canadian government – not only with the Department of Finance, but also with CIDA and the Department of Foreign Affairs and International Trade. The Department of Finance co-ordinates Canada's policy advice and channels it to the Executive Director and through him to the World Bank.

Structure of the Executive Director's Office

<i>Executive Director:</i>	<i>Mr. Len Good</i>
<i>Canadian Procurement Advisors:</i>	<i>Mr. Greg Ebel/Mr. François Pagé</i>
<i>Canadian Advisor:</i>	<i>Ms. Lesley Boucher</i>
<i>Canadian Assistant:</i>	<i>Mr. John Sinclair</i>
<i>Phone: (202) 458-0082; Fax: (202) 477-4155</i>	
<i>Address: D-12-081, 1818 H St. N.W., Washington, D.C., U.S.A. 20433</i>	

One of the key roles of the office is to provide assistance to Canadian business people. While the Bank provides significant procurement opportunities, it is a large organization with an opaque structure that is often difficult for newcomers to navigate. Canada's procurement advisors, along with the Canadian Embassy in Washington, assist in providing advice and information on how to do business with the Bank. (Details are provided below.)

Another point of contact for Canada is the Bank's External Affairs Department which is headed by Mark Malloch Brown. This Department has designated Tim Cullen to be responsible for liaison with the governmental and NGO community in Canada. Mr. Cullen assists in providing information about the Bank and in bringing Bank personnel to Canada for seminars and presentations on key topics of mutual interest.

Canadian Procurement at the World Bank

Canadian companies and consultants often provide supplies, equipment or services to projects financed through the World Bank. Traditionally, Canadian expertise in the power, environmental, engineering, human resources, telecommunications, financial and transportation sectors has led to procurement opportunities for Canadian firms on developing country projects around the globe.

In fiscal year 1996, many Canadian firms continued to benefit from Canada's World Bank membership by accessing procurement opportunities under World Bank financed loans. Fiscal year 1996 disbursements to Canadian companies for the supply of goods and services under Bank loans reached US\$225 million, a significant increase over the fiscal year 1995 figure of US\$171 million. Disbursements to Canadian companies were divided between consulting (US\$57 million), civil works (US\$8 million) and equipment contracts (US\$159 million).

It is particularly noteworthy that Canadians continue to excel in the consulting field. Canadian consultants win more contracts on a per capita basis than any other supplying nation. As a per cent of disbursements, Canadian consulting firms ranked fourth in fiscal year 1996 among all supplying countries and accounted for more than 6 per cent of total disbursements.

The 1996 results bring cumulative disbursements to Canadian companies to more than US\$3.2 billion. The Bank also reports on larger procurement contracts that have been awarded during the year even though project disbursements will occur in the future. In this regard, Canadian firms were awarded US\$83 million in fiscal year 1996. Belief that Canada can do even better on procurement at the IFIs led to the creation of the Interdepartmental Task Force on IFI Procurement, with representation from Industry Canada, CIDA, the Export Development Corporation, the Department of Foreign Affairs and International Trade and the Department of Finance. This group's report, released in June 1995, outlined a strategy to enhance the competitiveness of Canadian firms bidding for IFI contracts.

One conclusion of that report was that CIDA might improve Canada's procurement results at the IFIs if more joint financing of projects were undertaken – in effect, using a relatively small amount of Canadian Official Development Assistance to "leverage" the much larger resources of the IFIs. An interdepartmental mission to Washington in April 1996 followed up on this recommendation and identified eight World Bank projects in Africa and Asia where CIDA will provide some C\$55 million for co-financing with the Bank.

The task of implementing the Task Force's recommendations has been assigned to the Capital Projects Action Team (CPAT), an interdepartmental group. As a result, government efforts to assist Canadian firms are now better co-ordinated. However, this initiative will only be counted a success if it leads to better results for Canadian firms in securing IFI procurement projects.

Trust Fund Activities

A significant source of funds to facilitate increased Canadian participation in World Bank projects are the consultant trust funds supported by CIDA and administered by the World Bank. These are used to introduce new Canadian consultants to the Bank, as well as to encourage the Bank to undertake activities in areas of priority to Canada. In June 1995, CIDA concluded a new agreement with the World Bank – the Co-financing, Technical Assistance and Consultant Trust Fund Framework Agreement – to govern all its trust fund arrangements with the Bank. These funds lead directly to contracts for Canadians in the feasibility, assessment and design of development projects.

In 1995, CIDA replenished and redesigned its Canadian Consultant Trust Fund (Country Specific), which supports Canadian consultants involved in the identification, preparation and implementation of World Bank-financed projects in 14 identified developing countries. CIDA and Environment Canada also negotiated the new Canadian Consultant Trust Fund for the Global Environment with the World Bank. For further information on these and other Canadian trust funds at the World Bank, contact Mr. David Brown, Commercial Counsellor at the Canadian Embassy in Washington – phone (202) 682-7788, fax (202) 682-7789. Canadians can also access Bank funds through the Project Preparation Facility (PPF), the Global Environmental Facility, and the Policy and Human Resources Development Fund (PHRD).

International Finance Corporation

The International Finance Corporation is playing an increasingly important role in the Bank Group's private sector development activities. As the fastest growing entity within the Bank Group, it has also attracted the attention of Canadian companies and financial institutions that are interested in making direct investments in emerging markets.

In recent years, Canadian mining companies have been the prime beneficiaries of IFC financing and capital mobilization efforts. In 1996, a number of Canadian companies from other key sectors have also started working with the IFC. For example, Nova Corporation and its partners used IFC financing and structuring for their US\$400 million gas transmission project in Argentina. Canadian companies in the oil and gas, as well as the telecommunications and financial services, sectors are in advanced discussions with the IFC on investments which should be completed in the coming year.

Canadian Success Stories: Winning Contracts at the World Bank

Every year, small and large companies from across Canada benefit from procurement opportunities financed by the World Bank and 1996 was no exception.

- *Siddus Systems, located north of Toronto, won a contract to supply personal computers to a university in Angola.*
- *Manitoba-based Wardrop Engineering assisted the Philippines government in its Subic Bay redevelopment project by carrying out an impact assessment on an adjacent river basin.*
- *Dreco Energy Services of Calgary won a contract to supply close to US\$7 million in oil drilling equipment to Russia in order to assist that country in its oilfield rehabilitation efforts.*
- *Enterprises Vibec Inc. and Hydro-Quebec worked in partnership to supply and install million of dollars in power sector equipment in Haiti.*
- *To improve the land registration and cadastral systems in Russia, the DMR Group of Halifax was awarded a contract to provide training to the responsible government agencies.*

Perhaps the most significant development on the IFC front has been the return of Canadian financial institutions (typically commercial banks) to the IFC loan syndication program. This important program helps to mobilize private financing for IFC projects and provides financial institutions the opportunity to invest in emerging markets. By investing alongside the IFC, financial institutions participating in the syndication program gain access to potential new customers, attain a high yielding asset and, with the presence of the IFC as an investor in these projects, are provided a degree of political risk coverage. In fiscal year 1996, Canadian financial institutions participated in seven loan syndications totalling US\$62 million.

Canadian involvement and interest in the IFC has been greatly assisted by a number of trips to Canada in the last year by prominent IFC staff. In April 1996, the head of the IFC, Jannik Lindbaek, met with Canadian businesses, investors, parliamentarians and government officials during a three-day visit to Toronto, Ottawa and Montreal.

Learning About Opportunities

To further advance Canadian interests at the World Bank and to improve Canadians' understanding of available opportunities, Canada's Executive Director, along with World Bank staff and members of the regional development banks, travelled across Canada in 1996, holding seminars on

IFI procurement opportunities. During 1996, both President Wolfensohn and Mr. Lindbaek, visited Canada and met with senior business leaders to discuss opportunities for Canadian businesses to use Bank Group resources in exporting or investing in developing countries.

Canadian firms, organizations and institutions that are interested in winning World Bank contracts are urged to attend monthly business briefings (held on the first Thursday of each month) at Bank headquarters in Washington.

Both the Canadian Embassy in Washington, through the Office for Liaison with International Financial Institutions (OLIFI) (202-682-7788), and the Canadian Executive Director's Office at the World Bank (202-458-0082), work to assist Canadian firms and consultants seeking to participate in World Bank-financed projects. The range of opportunities is wide – a power project in China, an environmental assessment in Peru or a legal-judicial reform project in Russia are examples. The OLIFI and the Canadian Executive Director's Office at the World Bank encourage Canadian companies to contact them if they are interested in competing for procurement contracts.

Canada's Financial Participation

IBRD

Canada's share of the IBRD capital is approximately 3 per cent. A relatively small proportion of this capital contribution is required to be "paid-in" – about 6 per cent overall, but just 3 per cent in the last capital contribution. The remainder is "callable", in the unlikely event that the IBRD needs it from member countries. Periodically, the IBRD replenishes its capital through General Capital Increases (GCIs). The IBRD's last such capital increase (GCI III) in 1988 was for \$76.5 billion. Canada was allocated 19,655 new shares valued at \$2.37 billion. The paid-in portion of these shares is \$71.1 million. These shares were subscribed over a five-year period ending in 1993. As of June 30, 1996, Canada's cumulative subscriptions to the IBRD's capital stock totalled US\$5,404 million (44,795 shares), of which US\$335 million has been paid-in.

IDA

The IDA 11 Agreement reached in March 1996 resulted in a US\$22 billion replenishment. This will finance IDA's lending program over the three-year period to June 30, 1999.

IDA 11 Priorities

Rather than recommending new policy objectives, the IDA 11 negotiations focused more on ensuring that assistance to the poorest countries is more effectively implemented. The IDA 11 Agreement places particular emphasis on improving the quality of country assistance strategies. Three critical recommendations came out of the negotiations:

- *focus more on the impact of the Bank's operations, particularly on the poorest, through the development of impact indicators;*
- *ensure sufficient resources continue to be available for the poorest countries, particularly those in sub-Saharan Africa. However, underline that resources should be allocated first and foremost on the basis of sound economic performance; and*
- *encourage greater beneficiary participation in the preparation of country assistance strategies (CASs).*

A major Canadian priority in the IDA 11 negotiations was to ensure that significant resources continue to be directly targeted to the poor through the IDA's Program of Targeted Interventions, which has been highly successful, as earlier noted.

The three-year package begins with a one-year Interim Fund of about US\$3 billion for fiscal year 1997. (The one-year Interim Fund was created because the U.S.A. was unable to participate in the first year of the IDA 11.) Canada committed to a share of 3.5 per cent of the Interim Fund and 3.75 per cent of the two-year IDA 11 at a total cost of C\$607 million. To meet these obligations, Canada will issue three demand notes, one per year in 1996, 1997 and 1998. Each of these notes is then encashed over a seven-to eight-year period. To the end of fiscal year 1996, Canada's cumulative contributions to the IDA (subscriptions and contributions) were the equivalent of US\$3,987 million (including Special Fund contributions.)

IFC

The IFC's most recent General Capital Increase was approved in May 1992. Under this GCI, Canada can subscribe to as many as 35,366 new shares, valued at \$35.4 million. Payments for these shares are made over a five-year period. As of June 30, 1996, Canada's cumulative subscription to the IFC amounted to \$74.3 million, all of which was paid-in. This represents about 3.6 per cent of IFC's total capital.

MIGA

The Multilateral Investment Guarantee Agency was established in 1988 to encourage direct foreign investment in developing countries by protecting investors from certain non-commercial risks. Canada took up its subscription to MIGA's capital stock in 1988. Of the \$32.1 million subscription, \$6.4 million has been paid-in, evenly divided between cash and demand notes. Canada's share of MIGA's capital is 2.7 per cent.

Future Challenges

Together with his senior management team, and with the support of the Board of Directors, the President has outlined a strategic agenda for the future which elaborates on a number of key themes:

- the need for a "new compact" between donors, investors and recipients to ensure that sufficient resources are available to poor countries that can use these resources effectively and efficiently;
- the need for a broader approach to development which integrates social, cultural and institutional issues that underlie truly sustainable development;
- the need for a new global partnership to create and share development knowledge, with the World Bank utilizing current information technology to share knowledge and development insights with clients and partners; and
- the need to listen more carefully to clients and develop new products to respond better to the increasingly diverse needs of borrowers.

It is important to recognize that these organizational shifts are taking place in the context of a rapidly changing global environment. Total private capital flows to developing countries increased from \$44 million in 1990 to \$227 million in 1996. But official development finance declined over the same period from \$56 billion to \$39 billion.

The relative importance of the World Bank as financier has fundamentally changed in several developing countries where the private sector has stepped in to provide necessary financing. Yet, private capital flows to developing countries have not been uniformly distributed. The major challenge for the future will therefore be for the Bank to find more creative ways to meet the increasingly diverse needs of its clients, some of which benefit from greater private capital, but many of which do not.

JOINT ISSUES

Overview

The IMF and the World Bank are important institutions for Canada, each playing a unique role in the international economic and financial system. Nevertheless, there are key areas where the mandates of the two Bretton Woods institutions overlap, or where there is a requirement for close co-operation and co-ordination of activities. Indeed, at the Halifax Summit, G-7 leaders asked that efforts be made to increase co-operation and co-ordination between the IMF and the World Bank. The heads of both institutions have put considerable effort into fulfilling that objective. Two particular examples, the joint preparation of a proposed program of assistance for highly indebted poor countries and co-operation in post-conflict situations, are examined below.

Post-Conflict Situations

War and armed conflict not only threaten national and regional security, they inflict long-lasting damage on economies and set back the development process. The Bank and the Fund have been intensifying their efforts in the area of post-conflict reconstruction to help jump-start affected economies through investment in key productive sectors and re-establishing the necessary conditions to resume trade, savings and domestic and foreign investment.

In 1996, the Bank strengthened its work in Bosnia by funding projects to clear landmines, repair houses, restart electric power generation facilities and establish microcredit financing. In the West Bank and Gaza, the Bank focused on local employment generation through the Emergency Employment Generation Program. In Africa, the Bank is collaborating with the United Nations to facilitate the transition from war to peace in several conflict-torn countries, including Angola, Ethiopia, Mozambique and Uganda, and also is closely monitoring other areas of current conflict in the region.

The Fund has also broadened the scope of its policy on emergency assistance to include post-conflict situations. The Fund is focusing on its comparative advantage in the provision of technical assistance and policy advice to post-conflict countries such as Bosnia and Herzegovina in order to help in the establishment of a sound macroeconomic framework.

Multilateral Debt Relief

In June 1995, at the Halifax Summit, the G-7 countries urged the Bretton Woods institutions to develop a comprehensive approach to address the special problems of the poorest countries with large multilateral debt burdens through the flexible application of existing instruments and the creation of new mechanisms for debt relief. Just over a year later, at the 1996 annual meetings of the IMF and the World Bank, the details of a new debt initiative for heavily indebted poor countries (HIPC) were endorsed by the Interim and Development Committee.

The primary goal of this initiative (the "HIPC Initiative") is to ensure that HIPCs demonstrating a track record of sustained policy performance are able to achieve overall external debt sustainability, strengthen their poverty reduction programs and permanently "exit" from future debt-rescheduling exercises.

To qualify for exceptional relief, a country must be IDA-only and face an unsustainable debt situation after the full application of current debt relief mechanisms. The sustainability of the debt burden is determined on the basis of the ratio of debt-to-exports and debt-service-to-exports (calculated in net present value terms). A debt-to-exports ratio in the range of 200 to 250 per cent and a debt-service-to-exports ratio in the range of 20 to 25 per cent is judged to be the upper limit of debt sustainability for HIPCs.

The IMF and World Bank have estimated that full implementation of the initiative could require debt relief of about US\$5.5 billion, of which more than \$3 billion would come from multilateral institutions. Recently, the IMF agreed to make initial financing of SDR180 million available from ESAF resources. The World Bank has also agreed to an initial contribution of US\$500 million out of its surplus from net income. The World Bank and other multilateral development banks (e.g., the African, Asian and Inter-American Development Banks) will make their contributions to a special Multilateral Debt Trust Fund or parallel mechanisms.

At last September's annual meetings, the IMF and the World Bank were urged to implement quickly this new initiative in close co-operation with other IFIs and donor governments. Uganda will be the first candidate to be considered for exceptional treatment. Uganda was also the first country to receive "Naples terms" which is the most concessional treatment of debt forgiveness offered by the Paris Club of official government creditors. Following Uganda, there is a "cluster" of additional countries which could be considered for exceptional relief by early summer. Canada has been one of the leading supporters of the need for multilateral debt relief.

Existing Mechanisms for Assisting Heavily Indebted Poor Countries

World Bank Mechanisms

Regular Lending – The World Bank makes IDA credits available on highly concessional terms. In general, these take the form of 40-year loans which carry no interest rate charges.

Enhanced Access – Countries which are making special efforts to clear their arrears or undertake comprehensive debt workouts are given increased access to relatively scarce IDA resources.

The Fifth Dimension Facility – IDA-only countries which have incurred past market rate borrowings from the IBRD also receive annual interest rate subsidies. In recent years, these have had the effect of reducing the interest rate on these earlier IBRD loans from an average of about 6 per cent to less than 1 per cent.

IDA-Only Debt Reduction Facility – The IBRD provides grant financing (which carries no interest or principal) to eliminate up to 100 per cent of the debt which IDA-only countries owe to commercial banks. To date, this World Bank facility has extinguished almost US\$3 billion of commercial bank debt at no cost to these developing countries.

International Monetary Fund Mechanisms

Surveillance of Policies – In individual countries, the IMF provides advice which encourages the adoption of policies that provide a basis for sustained economic growth and price stability. More broadly, IMF surveillance of the global monetary system is aimed at promoting the balanced growth of world trade and an orderly and stable system of exchange rates.

Enhanced Structural Adjustment Facility – ESAF is the Fund's major source of concessional financing for low-income countries which are undertaking major reform efforts in the context of an IMF program. In recognition of the special challenges of these countries, ESAF provides loans which carry longer maturity periods and significantly lower interest rates than regular IMF arrangements.

Technical Assistance – Both the IMF and the World Bank provide substantial technical assistance to low-income countries to help strengthen their debt management policies.

ANNEX 1

Active IMF Lending Arrangements – As of December 31, 1996

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
(million SDRs)				
Stand-by arrangements			16,803.29	6,203.13
Argentina	Apr. 12, 1996	Jan. 11, 1998	720.00	428.00
Bulgaria	July 19, 1996	March 18, 1998	400.00	320.00
Costa Rica	Nov. 29, 1995	Feb. 28, 1997	52.00	52.00
Djibouti	Apr. 15, 1996	June 14, 1997	4.60	1.73
Egypt	Oct. 11, 1996	Sept. 30, 1998	271.40	271.40
Estonia	July 29, 1996	Aug. 28, 1997	13.95	13.95
Hungary	March 15, 1996	Feb. 14, 1998	264.18	264.18
Latvia	May 24, 1996	Aug. 23, 1996	30.00	30.00
Lesotho	Sept. 23, 1996	Sept. 22, 1997	7.17	7.17
Mexico	Feb. 1, 1995	Feb. 15, 1997	12,070.20	3,312.18
Pakistan	Dec. 13, 1995	Sept. 30, 1997	562.59	321.48
Panama	Nov. 29, 1995	March 31, 1997	84.30	23.20
Papua New Guinea	July 14, 1995	Dec. 15, 1997	71.48	36.14
Romania	May 11, 1994	Apr. 24, 1997	320.50	226.23
Ukraine	May 10, 1996	Feb. 9, 1997	598.20	62.20
Uruguay	March 1, 1996	March 31, 1997	100.00	100.00
Uzbekistan	Dec. 18, 1995	March 17, 1997	124.70	59.25
Venezuela	July 12, 1996	July 11, 1997	975.65	625.65
Yemen	March 20, 1996	June 19, 1997	132.38	48.38
EFF arrangements			9,741.63	7,011.07
Algeria	May 22, 1995	May 21, 1998	1,169.28	590.88
Azerbaijan	Dec. 20, 1996	Dec. 19, 1999	58.50	53.82
Gabon	Nov. 8, 1995	Nov. 7, 1998	110.30	66.18
Jordan	Feb. 9, 1996	Feb. 8, 1999	200.80	118.60
Kazakstan	July 17, 1996	July 16, 1999	309.40	309.40
Lithuania	Oct. 24, 1994	Oct. 23, 1997	134.55	41.40
Moldova	May 20, 1996	May 19, 1999	135.00	112.50
Peru	July 1, 1996	March 31, 1999	248.30	248.30
Philippines	June 24, 1994	June 23, 1997	474.50	438.00
Russia	March 26, 1996	March 25, 1999	6,901.00	5,031.99

Active IMF Lending Arrangements – As of December 31, 1996 (Cont'd)

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
(million SDRs)				
ESAF arrangements			3,922.92	1,709.28
Armenia	Feb. 14, 1996	Feb. 13, 1999	101.25	67.50
Azerbaijan	Dec. 20, 1996	Dec. 19, 1999	93.60	93.60
Benin	Aug. 28, 1996	Aug. 27, 1999	27.18	22.65
Bolivia	Dec. 19, 1994	Dec. 18, 1997	100.96	33.65
Burkina Faso	June 14, 1996	June 13, 1999	39.78	33.15
Cambodia	May 6, 1994	May 5, 1997	84.00	42.00
Chad	Sept. 1, 1995	Aug. 31, 1998	49.56	24.78
Congo	June 28, 1996	June 27, 1999	69.48	55.58
Côte d'Ivoire	March 11, 1994	June 13, 1997	333.48	–
Ethiopia	Oct. 11, 1996	Oct. 10, 1999	88.47	73.73
Georgia	Feb. 28, 1996	Feb. 27, 1999	166.50	111.00
Ghana	June 30, 1995	June 29, 1998	164.40	109.60
Guinea-Bissau	Jan. 18, 1995	Jan. 17, 1998	9.45	5.78
Guyana	July 20, 1994	July 19, 1997	53.76	17.92
Haiti	Oct. 18, 1996	Oct. 17, 1999	91.05	75.88
Honduras	July 24, 1992	July 24, 1997	47.46	13.56
Kenya	Apr. 26, 1996	Apr. 25, 1999	149.55	124.63
Kyrgyz Republic	July 20, 1994	July 19, 1997	88.15	32.25
Lao P.D.R.	June 4, 1993	May 7, 1997	35.19	5.87
Madagascar	Nov. 27, 1996	Nov. 26, 1999	81.36	67.80
Malawi	Oct. 18, 1995	Oct. 17, 1998	45.81	22.91
Mali	Apr. 10, 1996	Apr. 9, 1999	62.01	41.34
Mauritania	Jan. 25, 1995	Jan. 24, 1998	42.75	14.25
Mozambique	June 21, 1996	June 20, 1999	75.60	63.00
Nicaragua	June 24, 1994	June 23, 1997	120.12	100.10
Niger	June 12, 1996	June 11, 1999	57.96	48.30
Senegal	Aug. 29, 1994	Aug. 28, 1997	130.79	35.67
Sierra Leone	March 28, 1994	March 27, 1997	101.90	10.11
Tanzania	Nov. 8, 1996	Nov. 7, 1999	161.59	135.88
Togo	Sept. 16, 1994	Sept. 15, 1997	65.16	32.58
Uganda	Sept. 6, 1994	Nov. 17, 1997	120.51	23.43
Vietnam	Nov. 11, 1994	Nov. 10, 1997	362.40	120.80
Zambia	Dec. 6, 1995	Dec. 5, 1998	701.68	50.00
Total			30,467.84	14,923.48

ANNEX 2

World Bank Loans and IDA Credits – Fiscal Year 1996 (July 1, 1995 - June 30, 1996)

	World Bank Amount	IDA Amount	Total No.	Total Amount
	(millions of U.S. dollars)			
By area				
Africa	0	2,740.1	53	2,740.1
East Asia and Pacific	4,252.2	1,167.9	46	5,420.1
South Asia	1,161.6	1,770.9	21	2,932.5
Europe and Central Asia	3,918.2	476.4	61	4,394.6
Latin America & the Caribbean	4,047.2	390.3	54	4,437.5
Middle East & North Africa	1,276.7	318.5	21	1,595.2
Total	14,655.9	6,864.1	195	21,520.0
By purpose				
Agriculture	1,160.3	1,416.4		2,576.7
Education	920.8	784.9		1,705.7
Electric power and other energy	2,899.2	347.9		3,247.1
Environment	348.1	36.8		384.9
Finance	1,199.2	161.4		1,372.7
Industry	217.0	14.8		239.8
Mining/Other extractive	570.8	109.0		679.8
Multisector	906.3	758.6		1,685.5
Oil and Gas	30.0	25.6		55.6
Population, health and nutrition	1,495.2	858.2		2,353.4
Public sector management	1,036.0	943.1		1,938.4
Social sector	240.0	554.5		794.5
Telecommunications/Informatics	35.0	–		35.0
Transportation	2,236.9	535.7		2,772.6
Urban Development	632.0	236.5		868.5
Water supply and sanitation	729.1	80.7		809.8
Total	14,655.9	6,864.1		21,520.0

ANNEX 3

World Bank Loans and IDA Credits to Developing Countries

	World Bank		IDA		Total	
	No.	Amount	No.	Amount	No.	Amount
(millions of U.S. dollars)						
By Fiscal Year¹						
Cumulative to 1968	549	11,418.1	116	1,831.8	665	13,249.9
Total 1969-1973	374	8,917.8	273	3,931.6	647	12,849.4
Total 1974-1978	666	24,372.3	376	7,947.4	1,042	32,319.7
Total 1979-1983	711	44,908.0	518	16,368.1	1,229	61,276.1
1983-1984	129	11,947.2	106	3,575.0	235	15,522.2
1984-1985	131	11,356.3	105	3,028.1	236	14,384.4
1985-1986	131	13,178.8	97	3,139.9	228	16,318.7
1986-1987	127	14,188.2	108	3,485.8	235	17,674.0
1987-1988	118	14,762.0	99	4,458.7	217	19,220.7
1988-1989	119	16,433.2	106	4,933.6	225	21,366.8
1989-1990	121	15,179.7	101	5,522.0	222	20,701.7
1990-1991	126	16,392.2	103	6,293.3	229	22,685.5
1991-1992	112	15,156.0	110	6,549.7	222	21,705.7
1992-1993	122	16,944.5	123	6,751.4	245	23,695.9
1993-1994	124	14,243.9	104	6,592.1	228	20,836.0
1994-1995	134	16,852.6	108	5,699.2	242	22,521.8
1995-1996	129	14,656.0	127	6,864.0	256	21,520.0
Total	3,923	280,906	2,680	96,941.9	6,603	377,848.5

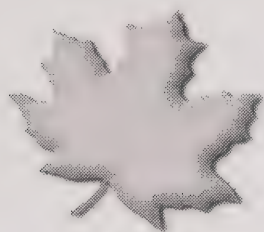
¹ Fiscal years are those of the World Bank Group (July 1 to June 30).

ANNEX 4

Disbursements by the World Bank and IDA Borrowers – Goods and Services from Canada – to June 30, 1996

	World Bank Amount	IDA Amount	Total Amount
(millions of U.S. dollars)			
By calendar year			
Cumulative to December 1960	133.5		133.5
1961	8.2	–	8.2
1962	3.7	–	3.7
1963	5.6	7.4	13.0
1964	4.7	1.8	6.5
1965	5.4	2.7	8.1
1966	11.6	5.3	16.9
1967	13.2	14.7	27.9
1968	6.3	7.8	14.1
1969	4.4	11.0	15.4
1970	7.6	1.3	8.9
1971	11.1	2.2	13.3
1972	10.5	2.3	12.8
1973	12.4	5.1	17.5
1974	15.8	8.4	24.2
1975	22.1	15.0	37.1
1976	25.7	10.8	36.5
1977	34.5	4.8	39.3
1978	26.1	5.5	31.6
1979	44.4	8.1	52.5
1980	51.5	7.8	59.3
1981	94.3	14.5	108.8
1982	75.0	17.6	92.6
1983	82.3	26.9	109.2
1984	92.6	54.3	146.9
1985	94.3	39.7	134.0
1986	184.8	46.8	231.6
1987 (Jan.-June)	92.8	23.4	116.2
1988 FY 1988 (to June 30, 1988)	182.1	47.4	229.5
FY 1989	197.0	45.0	242.0
FY 1990	164.0	41.0	205.0
FY 1991	139.0	34.0	173.0
FY 1992	131.0	38.0	169.0
FY 1993	151.0	41.0	192.0
FY 1994	115.0	69.0	184.0
FY 1995	123.0	48.0	171.0
FY 1996	169.0	56.0	225.0
Total	2,496.0	738.0	3,234.0
Per cent of total disbursements	2.29	1.81	2.16
Per cent of FY 1996 disbursements	2.48	2.13	2.38

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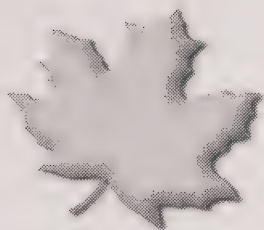
OPERATIONS UNDER

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REPORT ON

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INTRODUCTION

The Bretton Woods institutions – the International Monetary Fund (IMF) and the World Bank – were founded at a conference held in Bretton Woods, New Hampshire, in 1944. The IMF was established to promote the smooth functioning of the international monetary system, encourage international trade and capital movements, and support high rates of sustainable economic growth. The IMF (or the “Fund” in the following) has become the central institution in the international monetary system. It exercises a surveillance function by monitoring members’ economic policies, provides policy advice and extends short- and medium-term financial assistance to countries faced with balance of payments and other economic difficulties.

The World Bank’s goal is to help raise living standards and to promote sustainable development in developing countries. As the premier development institution in the world, it provides a wide range of assistance to developing countries, including lending for projects, technical assistance and structural economic policy advice. The World Bank Group is comprised of four organizations: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The IBRD and IDA together are commonly referred to as the “World Bank” (or the “Bank” in the following). The IDA is the component that provides assistance to the world’s poorest developing countries.

Canada is the eighth largest member of the Fund and Bank after the six other Group of Seven (G-7) countries and Saudi Arabia. Canada’s formal participation is authorized under the *Bretton Woods and Related Agreements Act*. Under Section 13 of the Act, it is stated that:

“The Minister of Finance shall cause to be laid before Parliament, on or before March 31 next following the end of each year or, if Parliament is not then sitting, on any of the first thirty days next thereafter that either House of Parliament is sitting, a report containing a general summary of operations under this Act and details of all those operations that directly affect Canada, including the resources and lending of the World Bank Group, the funds subscribed or contributed by Canada, borrowings in Canada and procurement of Canadian goods and services.”

The sections that follow review the activities and operations of, first, the IMF and then the World Bank for the year 1997. A final section deals with issues common to both institutions. The annexes contain detailed numerical summaries of the year’s activities.

Roles of the IMF and the World Bank***International Monetary Fund***

- Oversees the international monetary system and promotes international monetary co-operation.
- Promotes exchange stability and orderly exchange relations among member countries.
- Provides short- to medium-term financial support to members facing balance of payments difficulties.
- Draws its financial resources primarily from the quota subscriptions of its members.

World Bank

- Promotes economic development and structural reform in developing countries.
- Assists developing countries through long-term financing of development projects and programs.
- Provides special financial assistance to the poorest developing countries through the International Development Association (IDA).
- Stimulates private enterprises in developing countries primarily through its affiliate, the International Finance Corporation (IFC).
- Secures most of its financial resources by borrowing on international capital markets.

INTERNATIONAL MONETARY FUND

Overview

Canada is an open economy that is highly dependent on foreign trade and financial flows. Consequently, Canada has a major stake in a strong international monetary system that promotes the free movement of goods, services and financial assets. The IMF is important to ensuring a sound world financial system and broad-based sustainable economic growth through assistance to countries experiencing unsustainable external imbalances and related economic difficulties.

Benefits of Membership

IMF membership provides a number of specific benefits.

- The Minister of Finance is a Governor of the Fund and has an Executive Director on its 24-member Executive Board. This representation allows Canada to have a high-level influence on decisions taken by the IMF on specific country assistance programs and major issues affecting the world financial system.
- The IMF, through its regular surveillance of member country economies, provides Canada with an independent source of policy advice on macroeconomic policies and engages in regular dialogue on these policies with Canadian officials at Finance Canada and the Bank of Canada.
- The efforts of the IMF to ensure debtor countries abide by their obligations under Fund support programs help ensure that they repay Canadian bilateral loans and use our bilateral development assistance effectively.
- Canada earns a financial return on its financial position in the IMF.
- Were Canada ever to experience severe balance of payments difficulties, it would have the right to approach the IMF for financial assistance.

How the IMF Works

The IMF works like a credit union. It has a large pool of resources that it makes available in several ways to help members finance temporary balance of payments problems.

Members provide resources to the IMF determined by “quotas” reflecting each country’s relative importance in the world economy. A country’s quota in turn helps determine the amount of Fund resources that it may use if it experiences economic difficulties. At the end of 1997, the total quotas for the Fund’s 182 members was SDR1 145.3 billion.

A member country uses the general resources of the IMF by making a purchase (drawing) of other members’ currencies with an equivalent amount of its own currency. A member repurchases (repays) its own currency from the IMF with other members’ currencies over a specified period of time and with interest. In this way, a member country receives credit from other members.

Members seeking financial assistance can draw on a “reserve tranche” and four “credit tranches”, each amounting to 25 per cent of their quota. For access to resources beyond the first credit tranche, the member and the IMF have to reach a mutual agreement on a set of economic measures and reforms aimed at removing the source of the country’s balance of payments difficulty and creating the conditions necessary for sustainable non-inflationary growth.

Depending on the severity of the problem, these measures are agreed as part of a “Stand-by Arrangement” (SBA) or an “Extended Fund Facility” (EFF). Stand-by arrangements typically last 12 to 18 months while extended arrangements generally run for three years. Drawings of the higher tranches are generally spread over the duration of the arrangement. Emergency financing for countries in crisis situations, which could spill over to other countries, is available through the recently created Supplemental Reserve Facility (SRF).

Members can also use financial facilities created for specific purposes, including the Compensatory and Contingency Financing Facility (CCFF) which provides financial support to members experiencing temporary export shortfalls or other unforeseen adverse external shocks.

Concessional financing to low-income developing countries under the Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF) is made available in the form of low-interest loans with extended maturity periods.

¹ The SDR is the standard unit of account for the IMF’s operations. It represents a weighted basket of five major currencies – the U.S. dollar, the German mark, the Japanese yen, the pound sterling and the French franc. At the end of 1997, the exchange rate was SDR 1 = C\$ 1.93.

Canada's Priorities at the IMF

Global Economic and Financial Stability

A key objective is to ensure that the IMF is able to cope with the emerging needs of the world economy and can deal with any new crises that might arise such as, for example, that which affected Mexico in late 1994. This requires that the Fund move quickly to adapt its lending facilities and policies. Discussions continued during 1997 on a number of initiatives which were advanced at the G-7 Economic Summit in Halifax. The key elements of these proposals were directed at:

- identifying problems before they reach crisis proportions through a strengthening of the IMF's surveillance of national policies and financial market developments and through fuller disclosure of this information to market participants; and
- ensuring that the Fund has adequate resources for its regular lending operations through consideration of an Eleventh General Review of Quotas and has adequate liquidity to respond to financial emergencies through a doubling of the resources currently available under the IMF's General Arrangements to Borrow.

As follow-up to these recommendations, the Executive Board of the Fund initiated action two years ago in a number of areas. The financial crisis that engulfed countries in Asia in 1997 and the ongoing challenges posed by an increasingly integrated global economic system reinforced the importance of the Fund carrying through with these initiatives.

Asian Financial Crisis

For many years prior to 1997 the East Asian economies had among the highest growth rates in the world, supported by relatively low inflation, sound government balances, and high savings and investment rates. This attractive combination drew high levels of foreign capital inflows into the region, and these were further encouraged by relatively inflexible exchange rates that appeared to minimize currency risk. More recently, however, problems began to emerge. In several countries, export growth slowed and asset prices fell sharply. Trade competitiveness suffered as the U.S. dollar, to which currencies were linked, rose against the Japanese yen, a major purchaser of the region's goods. In the end, the large capital inflows proved to be too much for the region's underdeveloped financial systems to handle. Rapid expansion of domestic credit was increasingly channelled into unproductive investments and, as businesses faltered, bank portfolios deteriorated as well. As the problems accumulated, domestic and foreign participants alike began to move their assets elsewhere.

Against this background, Thailand was forced to let the baht float on July 2. Its value began to plummet rapidly, and the currencies and stock markets of Malaysia, Indonesia and the Philippines came under pressure as well.

In early August, Thailand was forced to seek IMF financial support, and a US\$17.2 billion package was arranged. This included US\$3.9 billion from the Fund, plus large contributions from the World Bank, Asian Development Bank and bilateral donors.

IMF-Led Packages for Thailand, Indonesia and Korea

Contributions (in billions of U.S. dollars)

Donor	Thailand	Indonesia	Korea
IMF	3.9 (505% of quota)	10.0 (490% of quota)	21.0 (1939% of quota)
World Bank	1.5	4.5	10.0
Asian Development Bank	1.2	3.5	4.0
Bilateral donors	10.6	≈ 23.2	23.35
Total	17.2	≈ 41.2	58.35

But despite this international support, confidence did not return to the region. The continuing turmoil led the Philippines to delay its exit from a US\$1 billion extended arrangement with the IMF, which was established in 1994. In October, Indonesia also sought an IMF stand-by arrangement, despite the apparent absence of an imminent balance of payments crisis. It was hoped that the resulting US\$43 billion stabilization package (over half of which is a 'second line of defence' of bilateral aid) would restore investor confidence in the country and halt the contagious effects sweeping the region.

However, the crisis continued to spread and, towards the end of 1997, it engulfed South Korea, the world's eleventh largest economy. Despite a richer and more advanced economy than those in Southeast Asia, Korea suffered from similar effects of a weak financial system. Confidence in the economy eroded quickly in November and foreign capital fled, leaving Korea with little option but to seek international support. In early December, a US\$58 billion package was announced (with a US\$23 billion second line of defence, to which Canada has pledged US\$1 billion). A deal reached in January with international creditors to reschedule a portion of its short-term debts further bolstered Korea's external financing position.

Throughout the crisis, the IMF and its financial packages have taken centre stage in the international response. In each of the three main countries affected, both bilateral and multilateral donors made the acceptance of an IMF-designed program of comprehensive reform a prerequisite to the provision of financial support. Moreover, the packages have been unusually large in relation to the recipient countries' quotas.

Far-reaching structural reforms have been at the heart of all three programs, along with the requirement of tight monetary policy aimed at stabilizing the local currency. Also, government budget shortfalls have been kept to a minimum. In each program, there has been an emphasis on financial sector restructuring which has led to the closure of weak banks and finance companies, along with steps to improve regulation, supervision and accounting transparency. Additional measures specific to the individual countries have also played an important role. Indonesia has been required to carry out extensive deregulation of several markets, while Korea's program has focused on capital account liberalization and reform of the chaebol (major corporate conglomerates).

Thus far, both Thailand and Korea have made substantial progress in implementing their programs, while the situation in Indonesia remains more tenuous. Although a difficult period of adjustment lies ahead, it is hoped that the IMF-mandated reforms will help the region once again achieve the dynamic growth that it has enjoyed in the past.

Provision and Publication of Data

Following the Halifax Summit, the Fund also initiated work on new data standards to better inform markets of financial and economic developments and strengthen Fund surveillance. Countries that are capital market borrowers are now making comprehensive data available to the public on a timely basis under the IMF's "Special Data Dissemination Standard" established in April 1996. Information on the statistical practices of members subscribing to the new standard is posted on the IMF's Data Dissemination Standards Bulletin Board (DSBB) on the Internet (<http://dsbb.imf.org>). Canada was one of the first countries to subscribe to the new standard, and information on Canada's statistical practices is posted on the DSBB at <http://dsbb.imf.org/country/canstats.htm>.

The recent developments in Southeast Asia demonstrated additional shortcomings in the public availability of data on external debt and international reserves with regard to forward operations and the usability of reserves. Disclosure of information on the financial situation of commercial banks was also problematic. At the urging of Canada and other members, the IMF is examining ways to expand the Special Data Dissemination Standard to improve coverage of these areas.

Agreement was reached in 1997 on a less demanding general standard for all Fund members. The General Data Dissemination System will focus on improving data quality within a statistical framework that takes into account the diversity of members' economies and the developmental requirements of their statistical systems.

New Arrangements to Borrow (NAB). At the Halifax Summit, the Group of Seven asked the Group of Ten (G-10) and other countries with the capacity to support the international monetary system to develop financing arrangements aimed at doubling the amount of resources currently available under the

General Arrangements to Borrow (GAB) (a credit arrangement which backstops the IMF's regular resource base). A G-10 Working Group, chaired by Canada, undertook consultations with potential new participants.

The Fund's Executive Board approved the New Arrangements to Borrow in early 1997 effectively doubling the resources, or credit, currently available to the IMF through the GAB. The resources will be provided by the G-10 countries, other industrial countries and a group of key developing countries judged to have the capacity to support the international financial system. The broader participation of the NAB underlines the changing nature of the global economy and the willingness of emerging economies to share responsibility for managing the international monetary system. The Asian financial crisis has given impetus to ratification of the arrangement by participants so that the NAB can become operational.

New Arrangements to Borrow

The main features of interest of the New Arrangements to Borrow (NAB) are:

- participating countries will make loans to the IMF when supplementary resources are needed to forestall or cope with an impairment of the international monetary system, or deal with an exceptional situation that poses a threat to the stability of the system;
- 25 countries have agreed to lend up to SDR 34 billion (about Can\$66 billion) to the Fund in the case of financial emergencies;
- Canada's share in the arrangement is 4.1 per cent, in the form of a commitment to provide non-budgetary loans to the IMF from its international reserves;
- the NAB will enter into force when it has been ratified by potential participants with credit arrangements amounting to no less than SDR 28.9 billion, including the five members with the largest credit arrangements; and
- the NAB does not replace the General Arrangements to Borrow (GAB), which will remain in force. However, the NAB will be the first and principal recourse of the IMF in the event of a need for supplementary resources.

Quota Review

The Fund must have adequate resources to maintain its effectiveness as a monetary institution addressing temporary balance of payments problems through support of sound adjustment policies. Reviews of Fund quotas are conducted at regular intervals to replenish its regular or quota-based resources. The last quota increase came into effect in 1992.

The IMF reached agreement under the Eleventh General Review last September on a 45-per-cent increase in IMF quotas to SDR 212 billion (US\$287 billion). Seventy-five per cent of the overall increase will be distributed among all members in proportion to their existing quotas. The balance of the increase will be distributed so as to better align members' quotas with their relative positions in the world economy. The new quotas will come into effect when members having 85 per cent of total quotas ratify their increased quotas.

SDR Allocation

For a number of years, the IMF has been examining ways to help redress inequities in the present distribution of SDRs arising from the fact that a number of new members, including Russia and the other former centrally planned economies, have not participated in previous allocations. At the IMF/World Bank annual meetings in September 1997, IMF Governors approved a special one-time allocation of SDR 21.4 billion that will ensure that all members receive an equitable share of cumulative SDR allocations.

The one-time allocation, which requires an amendment of the Fund's Articles of Agreement, will double the amount of SDRs already allocated. The allocations to be provided to member countries will establish a common "benchmark" of cumulative allocations to present quotas.

Special Drawing Rights (SDRs)

- The SDR is an international reserve asset created by the IMF and allocated periodically to its members as a supplement to their foreign currency and gold reserves.
- A general SDR allocation requires a determination by the IMF Board of Governors that there is a global need to supplement existing reserve assets.
- SDRs were first allocated to members in 1970. There have been two other general allocations, the most recent undertaken in 1981. The outstanding stock of SDRs currently totals SDR 21.4 billion.

Canada has received allocations totalling SDR 779.3 million. Following the special one-time allocation, Canada's allocations will increase to SDR 1,266.5 million.

Transparency and Accountability

Greater information on the activities of the IMF contributes to greater public understanding of the institution. For this reason, Canada has supported measures to enhance the transparency and accountability of the Fund's operations. The Fund has responded to the concerns of members for ensuring transparency by making available significantly more information on its activities. This includes publication of country reports, increased coverage of the Fund's annual consultations with member countries, and opening of the archives for documents that are more than 30 years old.

In May 1997, the IMF inaugurated a new series of Press Information Notices (PINs) that provide background information on a member country's economy and the IMF's assessment of the country's policies and prospects. PINs are issued at the country's request following the conclusion of the Fund's regular consultation with the member. Canada's first PIN was published February 19, 1998.

In 1997, the IMF also concluded an internal staff review of the experience of reform programs under the Enhanced Structural Adjustment Facility (ESAF). The study found that progress has been uneven. On the positive side, fiscal imbalances have been reduced, helping to reduce inflation; price liberalization and structural reforms have taken hold; declines in per capita income growth rates have been arrested; and social indicators have improved. However, stronger macroeconomic and structural policies are needed to enhance growth with improved living standards and to accelerate progress toward external viability. The report was made publicly available in February 1998.

Canada has placed great importance on the establishment of an independent evaluation process which can impartially assess IMF activities on a regular basis. In this context, the IMF launched an evaluation by independent external experts of several aspects of ESAF-supported programs. The evaluation concentrated on three topics: developments in countries' external position during ESAF-supported programs; social policies and the composition of government spending during ESAF-supported programs; and the effect of countries taking "ownership" of ESAF-supported programs. The experts completed their report in early 1998. Canada will be pressing to make this report publicly available as soon as possible.

How to Access Information from the IMF

The IMF's Publication Services provides a wide variety of Fund documents on the policies and operations of the IMF as well as world financial and economic developments. These include:

- IMF Annual Report;
- World Economic Outlook;
- IMF staff country reports;
- International Financial Statistics;
- Annual Report on Exchange Arrangements and Exchange Restrictions;
- press releases; and
- IMF Survey.

The Publications Centre is located at 700 – 19th Street N.W., Washington, D.C. 20431, U.S.A. Phone: (202) 623-7430; fax: (202) 623-7201; Internet address: publications@imf.org.

In addition, a vast array of Fund information – including fact sheets, press releases, speeches, IMF Survey, annual reports, World Economic Outlooks, staff country reports, and working papers – is available on the Fund's public web site at <http://www.imf.org>

Governance

A significant initiative in 1997 was the adoption of guidelines regarding the role of the Fund in issues of governance. The guidelines (News Brief 97/15 on the Fund's web site) reflect the increased importance that Fund members place on good governance and support a more active Fund approach in advocating policies and administrative practices that reduce the opportunity for corruption in the management of public resources.

Capital Account Liberalization

With the rapid growth of international capital markets, many countries have been liberalizing the capital account of their balance of payments. At its spring 1997 meeting, the Fund's Interim Committee (which is a twice-yearly meeting of IMF Governors who have representatives on the Executive Board) agreed that the IMF is uniquely placed to promote the orderly liberalization of capital movements. The Committee therefore proposed that the promotion of capital account liberalization be recognized as a specific purpose of the Fund in the Articles of Agreement.

In September, the Interim Committee supported further work on the orderly liberalization of capital movements as a prelude to an amendment of the Fund's Articles. Canada has emphasized that appropriate safeguards, transitional arrangements and approval policies will be required to ensure orderly progress toward capital account liberalization. We have also strongly

argued for close co-operation with other international institutions, such as the World Trade Organization (WTO) and the Organization for Economic Co-operation and Development (OECD), to ensure that the Fund's role is consistent with the work underway in these fora.

Lending Developments in 1997

A core activity of the Fund is to provide short- and medium-term financial assistance to members faced with balance of payments difficulties. The objective is to enable countries facing such difficulties to correct temporary payments imbalances with a minimum of disruption to the international monetary system. The provision of financing from the IMF, and the additional financing that an arrangement with the Fund often attracts from other sources, enables countries to undertake smoother economic adjustment.

At the end of 1997, the IMF had lending arrangements worth SDR 43.5 billion in place for 60 member countries (See Annex 1). Drawings by these countries in 1997 almost tripled from the 1996 level to SDR 16.8 billion. The sharp increase in lending was primarily the result of drawings by members affected by the Asian crisis.

Table 1
IMF Resource Flows

	1996	1997
	(in SDR billions)	
Total Purchases	6.0	16.8
Of which:		
Stand-by Arrangements	2.5	13.2
Extended Fund Facility	2.6	2.8
Compensatory and Contingency Financing Facility	0.2	0.1
Structural Adjustment Facility and Enhanced Structural Adjustment Facility	0.7	0.7
Total Repurchases	5.1	5.7
Net Purchases	0.9	11.1

Korea, Indonesia and Thailand all made large drawings under stand-by arrangements.

In late 1997, Korea became the first member country to receive assistance under the recently approved Supplemental Reserve Facility (SRF). The establishment of the SRF followed a November 18-19, 1997 meeting in Manila of 14 Asia-Pacific economies, including Canada, to discuss the evolving crisis in Asia. To strengthen the capacity of the IMF to carry out its responsibilities, the Manila Agreement adopted at the meeting urged the IMF to examine the establishment of a short-term lending facility that would take account of the increased scale of private capital flows and the size of potential financial problems. The SRF addresses crisis situations which could spill over to their countries.

In 1997, lending increased slightly under the Extended Fund Facility (EFF) – mainly to Russia and the Philippines. Large credits were also provided to Algeria, Argentina, Bulgaria, Ukraine and Peru under stand-by and extended arrangements. Lending rose slightly under the IMF's concessional facility, the Enhanced Structural Adjustment Facility.

Bulgaria was the only country to make a drawing under the Compensatory and Contingency Financing Facility (CCFF), one of the Fund's other special purpose facilities.

Managing Canada's Interests at the IMF

The Minister of Finance is Canada's Governor at the IMF and is responsible for the management of Canadian interests at the Fund. The Minister exercises influence on IMF issues through interventions at the spring and fall meetings of the Interim Committee, his plenary speech at the IMF/World Bank annual meetings and through periodic meetings with the Managing Director of the Fund. (The Minister's speeches are available on Finance Canada's home page located at <http://www.fin.gc.ca>.) The Governor of the Bank of Canada is Canada's Alternate Governor of the IMF. The Governor also attends the spring and fall meetings of the Fund.

The management of Canada's interests in the ongoing work of the IMF is delegated by the Governor to the Executive Director, Thomas A. Bernes, Canada's representative on the Executive Board. Mr. Bernes is one of 24 Executive Directors. In addition to Canada, he represents 11 other countries (Ireland and 10 Caribbean countries) which form a constituency at the Executive Board. Of the 24 members of the current Executive Board, 12 are from developing or transition countries and 12 from industrial countries. As the main decision-making body of the Fund, the Board normally meets three times a week.

The Department of Finance co-ordinates Canadian policy advice on IMF issues and Canada's operational interests in the IMF. The Bank of Canada also works closely with the Department of Finance in providing advice on issues of interest to Canada's Executive Director. Other involved departments and agencies include Foreign Affairs and International Trade Canada (FAITC) and the Canadian International Development Agency (CIDA). Within the Department of Finance, the International Finance and Economic Analysis Division is specifically responsible for conducting analyses and preparing advice on the policy issues and specific country programs that are brought before the Executive Board.

Parliament is informed of the activities and operations of the Bretton Woods institutions through the tabling of the Annual Report on the operations of the Bretton Woods institutions, the communiqués of the Interim and Development Committees and by appearances of the Canadian Executive Directors and departmental officials before parliamentary committees.

Canada's Voting Record

Since most decisions at the Fund are taken on a consensus basis, formal votes by Governors and the Executive Board are rare. Canada attempts to influence the development of Fund policy proposals before they are brought to the Board (often through the circulation of memoranda outlining Canadian positions) or to influence other members in the course of Board discussions. In 1997, Canada abstained on the vote to increase IMF staff salaries.

Canada's Office at the IMF

In addition to the Executive Director, Canada's office is staffed by a Canadian advisor and two technical assistants. Ireland staffs the Alternate Director's position and the Caribbean countries occupy a second advisor's position.

Structure of the Executive Director's Office

Executive Director:	Thomas A. Bernes
Canadian Advisor:	Mostafa Askari
Canadian Assistant:	Jeff Chelsky
Canadian Assistant:	Christoph Duenwald
Phone: (202) 623-7778; Fax no: (202) 623-4712	
Address: 11-100, 700 19th Street, N.W. Washington, D.C. 20431 USA	

The primary responsibility of the Executive Director's Office is to represent the interests of Canada and the other members of the constituency at the Fund's Executive Board. The Office participates in the Board discussions of a wide variety of policy, operational and administrative matters, including surveillance issues and country assistance requests and reviews.

Canada's Financial Participation

Canada's financial participation in the IMF consists primarily of its quota subscription. Canada's quota is SDR 4,320.3 million, or about 3 per cent of total quotas. Our quota subscription is a government asset which we make available to the Fund partly in Canadian dollars and partly in reserve currencies, such as U.S. dollars or SDRs. These latter non-Canadian dollar amounts continue to be part of Canada's foreign exchange reserves. As an asset, Canada's quota subscription is not recorded as an expenditure item in the budget of the Canadian government.

Only a tiny portion of the Canadian dollar part of our subscription is actually held in cash by the IMF. The balance is held by the Bank of Canada (in the form of demand notes) which are available to the Fund in the event it needs to draw upon additional resources. Canada earns interest on its quota subscription when the Canadian dollar is used in Fund lending operations – i.e. drawn by other member countries. In 1997, Canada received SDR 20.4 million on its net creditor position in the IMF. Canada's quota will increase to SDR 6,369.2 million when the new quotas agreed under the Eleventh Review are ratified.

At the end of the year, Canada's holdings of SDRs amounted to SDR 834.3 million, or 107.1 per cent of our cumulative allocation of SDRs. In 1997, Canada held SDRs in an amount greater than our allocation, and so earned net interest income of SDR 1.6 million². This income, and the net income from our net creditor position with the Fund noted above, are paid into the Government of Canada's Exchange Fund Account, adding to our foreign exchange reserves.

Table 2

Canada's Financial Position in the IMF

	December 31, 1997	December 31, 1996
	(SDR millions)	
Quota	4,320.3	4,320.3
Fund holdings of Canadian dollars	3,153.0 ¹	3,467.5 ¹
Reserve position in the Fund	1,167.3 ²	852.8 ²

¹ In accordance with Fund regulations, at least 0.25 per cent of Canada's quota is held by the IMF in a Canadian dollar cash deposit at the Bank of Canada. The Fund's remaining Canadian dollar holdings are in the form of non-interest-bearing demand notes, also kept by the Bank of Canada.

² This is the amount Canada is entitled to draw on demand from the IMF for balance of payments purposes. Our reserve position in the Fund is the result of both the portion of our quota subscription made available to the Fund over time in reserve currencies and the use of the Canadian dollar in Fund financial transactions with other members. As the name suggests, our reserve position in the Fund is a part of Canada's official foreign exchange reserves.

Last year, in line with earlier commitments, Canada made further contributions to the IMF's Enhanced Structural Adjustment Facility. The facility provides financial support on concessional terms to low-income countries facing protracted balance of payments problems. Canada's commitment to ESAF is a loan of SDR 500 million and a grant of approximately SDR 190 million. At the end of 1997, loan payments under these arrangements totalled SDR 368.1 million and subsidy contributions equalled SDR 79.3 million.

² When a member's holdings of SDRs is greater (lesser) than its cumulative allocation, that member (the Fund) receives interest on the difference.

Canada is also a participant in the General Arrangements to Borrow, the credit arrangement established by the G-10 industrial countries to supplement the Fund's regular resources in the event of financial crises. Canada's GAB commitment is the equivalent of SDR 892.5 million. This line of credit has not been used in recent years, but continues to provide an important backstop for the Fund's operations in the event of a financial emergency. As noted above, Canada is also committed to participating in the New Arrangements to Borrow when the facility becomes effective.

Challenges Ahead

A key challenge for the Fund is to ensure that its mission meets the needs of an increasingly integrated global economic system. In addition, the Fund must continue to provide support to members with balance of payments problems, including the heavily indebted poor countries. To meet these challenges:

- the IMF should examine how it can reorient its surveillance activities to better foresee, prevent and respond to liquidity and confidence crises of the type that have recently affected Asia;
- the IMF must continue to make an effective contribution to a comprehensive debt strategy by ensuring that it has sufficient resources to continue to finance the Enhanced Structural Adjustment Facility for the benefit of the heavily indebted poor countries. The IMF must continue its efforts to establish a "self-sustained" ESAF to ensure low-interest loans with extended maturity periods are available for low-income countries; and
- the IMF must devote close attention to the issue of how to achieve appropriate sequencing of capital account liberalization, with special emphasis on the priority of strengthening financial sectors and ensuring their adequate regulation and supervision.

THE WORLD BANK

Overview

Membership in the World Bank affords Canada an important voice on key development issues in the world's premier multilateral development bank. With 181 members and loans and credits to almost 85 developing member countries in fiscal year 1997, the World Bank has a far-reaching impact on global development. It assists members, both developing countries and countries in transition from planned to market economies, by providing concessional assistance and access to world financial markets for development purposes. In addition, it advises on policy issues crucial to improving members' longer-term development prospects. In its 1997 fiscal year, the World Bank provided loans and credits to these countries of about US\$19 billion (see Annex 2). In over 50 years of existence, it has provided more than US\$397 billion in loans to the developing world (see Annex 3).

Many of the Bank's members, both developing countries and countries in transition, continue to face a tremendous challenge in raising the living standards of their populations. However, the Bank's support has been instrumental in transforming a number of countries from dependence towards greater self-reliance. Where countries have established an appropriate enabling environment, private capital is stepping in to play an increasingly important role in helping to finance future growth. The World Bank continues to play an important catalytic role in encouraging the use of private capital for development.

Bank Reforms Accelerate Further in 1997

In his third year in office, President James D. Wolfensohn deepened his program of far-reaching reforms through his Strategic Compact in all areas of the Bank. The Strategic Compact was unanimously approved by the Executive Board in 1997. Priority was placed on improving results on the ground by enhancing the quality and impact of the Bank's operations, through such means as decentralizing operations to the field. In fiscal year 1997, more than half of the Bank's Country Directors were relocated to the regions. Further steps were also taken to make the Bank a more client-focused, better-managed and more responsive organization, better able to meet evolving global challenges. Canada is giving its strong support to President Wolfensohn's efforts to bring about real change at the Bank.

Responding to the Changing Global Environment

Events in 1997 reinforced the importance of the Bank's ongoing efforts to better adapt to the changing global environment. In particular, the volatility in the Asian financial markets underlined the need to strengthen the Bank's work in supporting financial sector reform, as well as the need for a more co-ordinated approach among the international institutions and with the private sector in responding to financial market crises. To this end, the Bank took steps to expand its financial sector expertise, develop new products that can more quickly respond to crisis situations and enhance its work on crisis prevention.

One key outcome was the decision to establish a Special Financial Operations Unit (SFOU) to help manage financial sector crises. In conjunction with this, a high level external Advisory Board is being created to provide feedback on the SFOU's advice and operations. In order to prevent further financial sector distress, additional funding will be made available for strengthening financial systems in non-crisis countries and for reducing the negative impact of reform measures on the poor in crisis countries.

Since July 1997, as part of the IMF-led international effort, the Bank has pledged US\$16 billion in direct response to the crisis in Southeast Asia. This includes pledges of US\$1.5 billion for Thailand, US\$4.5 billion to Indonesia and up to US\$10 billion for Korea. The Bank response to both Thailand and Indonesia is based on the use of standard loan operations aimed at both strengthening those sectors of the economy directly implicated in the crisis

and at identifying and assisting the governments in dealing with social impacts. In Thailand, the Bank is focusing on reforming investments and implementing a social action program for rural job protection and maintaining participation in the education sector. In Indonesia, the Bank program emphasizes macroeconomic stability, financial sector reform, competition policy, regulatory reform and the protection of low-income groups. The Bank is also assisting the government in a budgetary review with a view to increasing the government's social spending.

The crisis in Southeast Asia has also emphasized the need for responsive Bank lending. In Thailand and Indonesia, the Bank has shown a capacity to mount an extensive response under a tight deadline. The Bank's response to Korea was developed to be both rapid and flexible. In this respect, the Korea Economic Reconstruction Loan, approved in December 1997, provided much quicker balance of payments assistance for a program of financial and real sector reforms and responded to the immediate need to overcome Korea's liquidity problems, restore investor confidence and assist in the resolution of fundamental problems in the financial and real sectors.

Other broader new lending instruments, the so called "adaptable lending products" were also introduced in 1997. There was a recognition internally, as well as externally among clients, that the Bank had to become more flexible and innovative in its delivery mechanisms in order to cut down on bureaucratic delays and to address emerging new developments.

Adaptable Lending: New Investment Instruments

To respond to the increasingly diverse demands of its clients, the Bank introduced two new lending instruments in 1997 – the Learning and Innovation Loan (LIL) and the Adaptable Program Loan (APL).

The LIL is small and experimental in nature, usually less than US\$5 million. It is designed to be used:

- when institutional capacities need to be strengthened;
- in testing an uncharted but promising approach for which viable solutions have not yet been proven; and
- in piloting a promising development effort based on initial work undertaken.

The APL involves a series of loans, designed to provide assistance during times when development processes cannot be addressed through a single investment operation. They are intended to support a multi-year commitment, thus cutting down on the time needed to prepare new loans.

Benefits of Membership

- Canada's voting share of about 3 per cent in the World Bank gives us a seat on the Bank's 24-member Executive Board and on the joint IMF/World Bank Development Committee. Canada has the opportunity, both at the Executive Board and in discussions with Bank staff, to provide direct input into the formulation of Bank policies and operational decisions. Canada and other shareholders provide the Bank with guidance to improve developing countries' economic, social and environmental performance.
- Participation in the Bank affords an opportunity to influence international development policy issues of concern to Canadians. Input into the Bank's annual research report – the World Development Report (WDR) – provides an important vehicle by which Canada can influence the global debate on poverty, labour, health and the environment. For example, a broad spectrum of Canadian academics, non-governmental organizations (NGOs), research institutions and government officials met in Ottawa in early 1997 with the Bank's chief economist and his staff to provide input into the 1997 WDR on "The Changing Role of the State". This report examined how to enhance the institutional capacity of the state to provide more effective management and to better implement social and economic reforms.
- Canada benefits from the Bank's leadership role in bringing together donors to respond quickly to emergency situations in countries in post-conflict situations. For example, Canada and other donors have worked closely with the World Bank to assemble an emergency reconstruction assistance package for Bosnia. In the context of the Middle East peace process, Canada has been closely involved with the Bank's efforts to mobilize resources for the West Bank and Gaza. Under the aegis of the Post Conflict Unit, in 1997 the Bank provided assistance on de-mining with support from Canada and other donors. Through such co-operation, Canada's influence can be leveraged beyond what could be achieved through its bilateral programs.
- Canada benefits from the role the World Bank plays in bringing together donors for Consultative Groups (CGs) to provide assistance to specific countries in need. Through CGs, donor countries are able to better co-ordinate their policy advice and operational programs to provide more coherent advice to borrowers and to maximize the impact of their operations. Last year, the World Bank participated in 32 separate CGs and donor groups. CIDA and other donors also benefit from the Bank's co-ordination of major international programs, such as the Special Program of Assistance for Africa and the Global Environment Facility.
- The Canadian government draws heavily on the Bank's research and policy work to enrich their understanding of international development. A wide variety of CIDA programs also benefit significantly from direct access to Bank staff and expertise.
- Finally, Canadian companies and individuals enjoy substantial procurement benefits from our membership in the World Bank Group. Disbursements in fiscal year 1997 for Canadian goods and services totalled US\$155 million, bringing total cumulative disbursements to more than US\$3.4 billion.

How the World Bank Group Works

The World Bank Group is made up of four complementary, but distinct, entities: the International Bank for Reconstruction and Development (IBRD); the International Development Association (IDA); the Multilateral Investment Guarantee Agency (MIGA); and the International Finance Corporation (IFC).

The IBRD and IDA (together commonly known as the World Bank) both provide funding for investment projects and for adjustment, or economic reform, operations. The IBRD lends funds on commercial terms (slightly above a market interest rate – LIBOR) to the better-off borrowing members, while IDA provides interest-free credits to the poorest borrowers. The IBRD gets its funds primarily from borrowing on international markets, on the basis of its triple-A credit rating, whereas IDA receives grant funding from donors (details are provided below). In effect, the IBRD on-lends to borrowing countries at a rate of interest much lower than what they could secure on their own borrowings.

The IFC supplements the activities of the IBRD and IDA by undertaking investments on commercial terms in productive private sector enterprises. The IFC provides such services as direct private sector loans, equity investments, resource mobilization and technical assistance. MIGA's mandate complements that of the IFC; it promotes private foreign direct investment in developing countries, primarily through the issuance of insurance against non-commercial risk, such as the risk of currency inconvertibility during civil conflict.

Canada's Priorities at the World Bank

Developmental Priorities

Despite considerable progress in improving living standards worldwide, over three billion people remain in dire poverty. Canada has long been a key player in international efforts to assist the poorest and strongly supports **poverty reduction** as the overarching objective of the World Bank. The Bank has taken an increasingly sophisticated (or "integrated") view of poverty reduction in recent years; in doing so, it has recognized that poverty reduction cannot be addressed in isolation. Private sector development, good governance and environmentally sustainable policies are just a few of the factors which need to be considered in designing strategies to help improve the living standards of the poor in member countries. Greater emphasis has also been placed on ensuring that social safety nets are in place to protect the poor during periods of economic adjustment.

Poverty assessments continued to provide valuable support for the Bank's poverty reduction efforts last year. Since fiscal year 1989, 93 poverty assessments have been completed, covering approximately 90 per cent of the world's poor. The findings of these assessments are an important input to the Bank's Country Assistance Strategies (CASs) which, in turn, are the basis of the Bank's lending programs. To further ensure that poverty reduction remains at the heart of the Bank's operations, the Poverty Reduction and Economic Management Network (PREM) was established in 1997 to help guide the Bank's poverty strategy.

Lending for the social sectors has been a focal point of the Bank's poverty-reduction efforts in recent years. The Bank is now the world's single largest source of financing for investment in human capital. The Bank, and particularly the IDA, has placed particular emphasis on lending targeted directly to the poor under the Program of Targeted Interventions (PTI). Over the 1995-1997 period, PTI lending has consistently accounted for more than 50 per cent of the IDA's project lending.

***IDA Lending for the Program of Targeted Interventions
Fiscal Years 1995-1997***

	1995	1996	1997
	(US\$ millions)		
IDA PTI Lending	2,432	3,246	1,874
As % of IDA investment lending	54	63	53
As % of all IDA lending	43	47	41
Number of IDA PTI projects	48	51	37

Private Sector Development: Canada has encouraged the increasingly co-ordinated approach to private sector development that has developed within the Bank Group over the past year. It is now recognized that the private sector has an important role to play in addressing virtually all development challenges, from protecting the environment to assisting in privatization in transition economies. In response, business innovation programs are now under way in all the Bank's regional offices.

The Bank further expanded its partial risk and partial credit guarantee programs, approving three partial guarantees, totalling US\$420 million in fiscal year 1997. These guarantees are particularly important in promoting infrastructure development; an estimated US\$200 billion to US\$250 billion is currently needed by developing countries for infrastructure alone over the next 10 years – an amount far above the capacity of governments and international agencies to finance. Such long-term funding volumes can only be supported by greater reliance on financing from the private sector. The Bank is increasingly using guarantees to expand developing countries' access to international and domestic capital markets.

To assist in improving developing country competitiveness, the Bank introduced a program in 1997 to share knowledge and to provide technical assistance to client countries. For example, the Economic Development Institute, the Bank's training institute, held a competition policy training course in New Delhi in partnership with other international training institutions.

Another example of the private sector's role in development is the growing impact of **micro-credit operations** (relatively small loans made to the poor by grassroots organizations such as the Grameen Bank in Bangladesh). With a small investment, these organizations have been successful in improving the living conditions of the poor, particularly women, in developing countries. Evidence from these operations is compelling; not only does it show that the poor are capable of helping themselves, but it underlines that they can be very good credit risks. Members of the Consultative Group on the Poorest (CGAP), including the World Bank and Canada, met several times in 1997 to exchange views on best practices and to explore opportunities to augment resources of existing micro-finance institutions.

***Micro-credit:
The Consultative Group to Assist the Poorest (CGAP)***

Up until the end of fiscal year 1997, CGAP had approved funding for 14 retail micro-finance institutions, including the Women's World Bank Fund, the Vietnam Bank for the Poor, and the Rural Finance Facility in South Africa. Over this period, CGAP also funded a number of capacity building initiatives – for example, the Pilot Capacity Building Initiative in Africa and the global Micro-finance Network.

CGAP's objectives are:

- to increase the level of resources available to the poor in developing countries through micro-finance programs;
- to provide donors with a vehicle to disseminate and exchange information and lessons of experience on micro-finance; and
- to improve donor co-ordination in the provision of these services.

Through this work, CGAP seeks to strengthen the ability of micro-finance organizations with a proven track record and to provide assistance to the poor. The World Bank has contributed US\$30 million to the facility.

Good Governance and Corruption: Over the past year, the Bank has made great strides in addressing the issue of governance, not just in terms of policy and research, but also in its own operations. In addition to encouraging more effective management of borrowing member public expenditures and more participatory and open approaches in decision-making, the Bank is now incorporating measures into its own operations to help combat corruption. The Bank has amended its procurement guidelines to provide conditions for disbarring bidders from future Bank-financed projects for a stated period, or even indefinitely, if it finds evidence of fraud or corruption.

Canada has also been particularly concerned about unproductive expenditures, particularly excessive military expenditures. At a time of scarce donor resources, the Bank's clients can ill afford to waste resources on unproductive spending. Recognizing this problem, the Bank has issued a note "Bank Work on Military Expenditures" for staff guidance. Among other things, the Bank is requesting better information from borrowers on military-related aggregate expenditures to aid in its public expenditure reviews. It is also encouraging to see that a number of countries are seeking Bank assistance in the conversion of military-run industries (China, the Czech Republic and Hungary), while others, including Angola, Ethiopia and Uganda, have asked for help with demobilization and demilitarization.

During the recent IDA negotiations, donors underlined that lending decisions should increasingly be based on a borrowing government's efforts to reduce unproductive expenditures. The recent IDA review for the 1994-1996 period indicates that lending is in fact being linked more closely to country performance in such areas. The Bank's Economic Development Institute (EDI) has also been using its public sector reform program to build consensus in client countries to work against corrupt practices. In 1997, seminars on corruption were held in about 30 borrowing member countries.

Environmentally Sustainable Development: Canada has long been a vocal advocate of the need for the Bank to better integrate environmental considerations into its operations and is a keen supporter of the Bank's recent efforts. The establishment of the Environmental Sustainable Development (ESD) vice-presidency in 1993 has been instrumental in supporting this objective. By the end of fiscal year 1997, cumulative lending to the environment sectors was close to US\$3.8 billion.

Of particular note is the increasing work undertaken by the Bank in co-operation with other shareholders in the area of **climate change**. It is now recognized that collective global action is required to find solutions to this problem and the Bank has stepped up its efforts to provide assistance to its borrowing member countries in helping to reduce "greenhouse gases".

The World Bank has undertaken a number of initiatives in this area, including:

- re-examining the relationship between energy and the environment;
- preparing a “Carbon Backcasting Study” on what would have happened to project costs and types if the damages associated with global climate change had been integrated into energy lending;
- launching a “Climate Change Global Overlays” program to help countries adjust their policies so as to integrate global externalities into their national economic planning; and
- designing a program for a “Global Carbon Initiative (GCI)” to investigate the feasibility of market mechanisms and voluntary payments to reduce emissions and support sustainable growth for developing countries.

In addition, the Bank continued with its traditional work as a Global Environment Facility implementing agency. In this role, the Bank assists countries in identifying emissions abatement opportunities that are cost-effective, focusing in particular on renewable energy and energy efficiency.

Transparency and Accountability

Transparency and accountability are fundamental to ensuring the longer term sustainability of the Bank Group's operations. Canada has been a major proponent of increased openness at the Bank. The Bank has responded to concerns from shareholders by making public a growing number of documents on operations, both from the IBRD/IDA and from the IFC.

Transparency also requires **better consultation with beneficiaries**. Canada and other donors have pushed the Bank and borrowing countries to find ways to improve consultations with local peoples in beneficiary countries, not only in the design and implementation of projects, but also in the preparation of key policy documents such as country assistance strategies. To ensure that the Bank is accountable to its clients, Canada has been one of the major supporters of the work of the **Inspection Panel**. Any group that may be affected by a Bank-supported project has the right to request that the Panel investigate whether the Bank has abided by its policies and procedures. Since its inception, the Panel has received 10 formal requests for inspections; it recommended an investigation of five of these in fiscal year 1997.

How to Access Information from the World Bank

The World Bank's Public Information Centre (PIC), which became operational in early 1994, provides a wide range of Bank documents, including:

- Project Information Documents (PIDs);
- Staff Appraisal Reports (after approval by the Board of Executive Directors);
- country economic and sector work documents and sectoral policy papers;
- the Annual Report and the World Development Report;
- the Monthly Operational Summary and International Business Opportunities;
- environmental data sheets, environmental assessments, environmental analyses and environmental action plans;
- Global Development Finance; and
- Operation Evaluation Department Précis.

The Public Information Centre is located at 1776 G Street N.W., Washington, D.C. 20433, U.S.A. Phone: (202)458-5454; e-mail address: pic@worldbank.org. Additional up-to-date information is also available on the Internet (<http://www.worldbank.org>)

Getting Results

Improving the development effectiveness of the Bank's operations is crucial to ensuring that its broader policy objectives are being met. To this end, considerable effort has gone into designing development impact indicators that can help track the progress of Bank operations and assess their impact on affected peoples. All projects approved after July 1996 are required to be fitted with specific performance monitoring indicators. Moreover, about 40 per cent of operations approved before July 1996 have been "retrofitted" with performance indicators, and the remainder will be "retrofitted" before the end of fiscal year 1998. Performance indicators are based on 16 sector-specific areas, such as education, agriculture, finance and poverty reduction. A handbook has been prepared to assist managers in utilizing the indicators in project design and monitoring.

Performance Indicators: Poverty Reduction

The Wapenhans Report on improving portfolio quality emphasized the importance of developing a better understanding of the impact of the Bank's operations by setting clear performance goals. Since poverty reduction is the Bank's overarching objective, this is one of the key sectors where the Bank has been working to establish meaningful performance indicators.

Three classes of indicators have been developed: (i) input indicators; (ii) process or output indicators; and (iii) impact indicators.

The following provides some simple examples of indicators for a secondary school project for girls.

Input Indicators: number of trainees trained; amount of credit disbursed; numbers of schools to which funds were disbursed.

Process/Output Indicators: number of graduating students; number of facilities installed/repaired.

Impact Indicators: number of girls from project schools who found employment.

Involving NGOs in Decision-Making

President Wolfensohn has been a major catalyst behind the Bank's outreach program with NGOs; particular emphasis has been placed on the importance of expanding partnerships with civil society. NGO co-operation expanded further in fiscal year 1997 with NGO liaison staff appointed to 72 resident missions; more than half of these are full-time NGO specialists. About 47 per cent of Bank projects across all major sectors included some form of NGO participation in fiscal year 1997.

NGOs have increasingly participated in the design stage of project preparation as well as in the implementation phase. The Bank compiles a List of World Bank-Financed Projects with Potential for NGO Involvement, which includes a number of upcoming Bank projects seeking NGO involvement. NGOs are also playing a stronger role in the Bank's economic and sector work, particularly in working with borrowing countries on the preparation of National Environment Action Plans and poverty assessments. NGOs' central role in the Global Environment Facility (GEF) is also noteworthy.

One key venue for ongoing dialogue is the NGO-World Bank Committee. Membership consists of senior Bank managers and 26 NGO leaders from around the world (15 from developing countries). Canada's representative on this committee was Ruth Remple from the Inter-Church Coalition on Africa.

In fiscal year 1997, an interagency working group on NGO capacity building was launched and a joint NGO-Bank program was initiated to monitor stakeholder participation in eight Bank projects.

Within Canada, NGOs have participated in a regular series of government interdepartmental meetings on such issues as multilateral debt, the IDA and Africa. This consultation has proven useful for advancing Canadian interests at the Bank.

Key Developments in 1997

Establishment of the Toronto Centre: Recognizing that weaknesses in financial sector regulation and supervision were major factors behind the recent crises in financial markets, the Government of Canada and the World Bank jointly announced at the IMF/World Bank annual meetings in 1997, the creation of the Toronto International Leadership Centre for Financial Sector Supervisors. The Centre will provide experience-based training for senior financial supervisors and regulators in emerging markets. The training will provide participants with the knowledge and capacity to enhance the profile, credibility and influence of their institutions in the financial sectors and with their governments. Support for the Centre is being provided by the Schulich School of Business at York University where the Centre will be located.

Partnerships With Other International Organizations: Following up on Halifax Summit recommendations, the Bank has increasingly reached out to co-ordinate better with other international institutions, including the multilateral development banks (MDBs), the WTO and various United Nations (UN) agencies. In 1997, efforts were made to expand relations with the International Labour Organization. Two joint research projects have been initiated and co-operation in a number of new areas, including harmful child labour practices and labour standards, is being explored.

The President and the heads of the regional development banks now meet every six months to exchange information and experiences on key development issues. A working group on evaluation methodology has recently been established among the MDBs to better harmonize evaluation standards for assessing operational performance and development results. World Bank co-operation with the UN on data collection and assessment is also expanding, as are joint assistance programs in post-conflict countries.

The World Bank: Emerges as a “Knowledge Bank”

The emergence of a technology-driven global knowledge economy means that economic growth in the 21st century will increasingly depend on a country's ability to build and mobilize knowledge capital to complement physical and financial capital. The increased importance of knowledge capital, combined with the growing importance of private capital investment and technology-driven information flows, poses new challenges and opportunities for developing countries and for the international development community.

In recognition of the growing importance of knowledge capital, in June 1997, Canada and the World Bank hosted “Global Knowledge '97”, an international conference held in Toronto, which brought together leaders from government, the private sector, NGOs and the poorest countries. Among the themes addressed were:

- empowering the poor through improved information and knowledge;
- the role of the state in developing regulatory frameworks for information;
- infrastructure and capacity building;
- encouraging civic participation in the knowledge revolution; and
- utilizing distance education and technology for learning.

Financial Assistance Packages: In response to the volatility in Asian financial markets, the World Bank participated in financial bailout packages for Indonesia, Thailand and Korea along with the IMF and other international financial institutions. The Bank took steps to expand its financial sector expertise, develop ways to respond more quickly to crisis situations and enhance its work on crisis prevention. A Special Financial Operations Unit was created to help manage financial sector crises with a high-level external Advisory Board to provide feedback on the SFOU's operations.

Administrative Efficiency and Cost-Effectiveness

Ensuring the efficiency and the effectiveness of the Bank's operations has long been a key objective of Canada. But efficiency and effectiveness entail more than just budget cutting. They require setting clear priorities and a more efficient and strategic delivery of services. The Bank needs to operate in those areas where its assistance is needed and where it has a clear comparative advantage. It needs to reconsider its role in areas where the private sector or other MDBs may be better placed to provide assistance. Over the past year, the Bank has undertaken a major review of its activities under the “Strategic Compact” which will better link resource allocation to priority areas.

Managing Canada's Interests at the World Bank

The Minister of Finance, as Canada's Governor of the World Bank, is responsible for the management of Canada's interests at the Bank. The Minister exercises his influence through exchanges of views at the Development Committee and annual meetings and through periodic discussions with the President of the World Bank. For example, at the annual meetings in 1997, Governors addressed the issue of how to help member countries combat corruption and improve governance and discussed progress in helping the poorest countries with unsustainable debt burdens through the Initiative for Heavily Indebted Poor Countries (further information is provided on pages 40-42). The President of CIDA is Canada's Alternate Governor for the World Bank.

The day-to-day handling of Canada's diverse interests at the Bank is delegated by the Governor to the Executive Director, currently Len Good. Mr. Good is one of 24 Executive Directors; he represents Canada and 12 other countries (Ireland and 11 Caribbean countries) at the Executive Board. The Board is currently made up of 24 Executive Directors; 12 are from developing and transition countries and 12 from developed countries.

One of the important functions played by Mr. Good is his oversight of the Bank's operations through his membership on the Committee on Development Effectiveness (CODE), which was established in 1994. The Canadian Executive Director is one of eight members and is the co-chair of CODE, which examines project implementation and selected policy issues in detail. The Canadian office has actively participated in CODE with a view to understanding better the difficulties which Bank staff encounter in project implementation and the challenges facing staff in being responsive to the needs of locally affected communities in developing countries. Emerging from this effectiveness evaluation are changes in Bank procedures, and occasionally, in the Bank's general approach to project implementation.

Canada has also developed a strong working relationship with the Economic Development Institute. An existing EDI trust fund, to which Canada contributed, has supported some innovative work on governance, including work with the Parliamentary Centre in Ghana and a new corruption sensitization campaign for Tanzania and Uganda.

Canada's Office at the World Bank

During the course of the year, the office participated in numerous discussions that led to the creation of the Centre for Property Studies under the leadership of the University of New Brunswick, with the support of CIDA and the World Bank. The Centre is designed to take a multi-disciplinary approach to property issues, emphasizing the role of property rights in economic and social development. It will constitute an excellent vehicle for the promotion of Canadian expertise on legal, institutional, environmental, technical, economic and social aspects of property formalization.

Canada's office was also instrumental in helping to develop the Global Knowledge Conference. This conference was a unique occasion to promote Canadian expertise in the area of knowledge management and telecommunications. At this conference, the Minister responsible for CIDA announced a contribution by the Canadian government of \$1.5 million to the development of a pilot project with the Bank called "The African Virtual University". This pilot project provides several Canadian universities and businesses with an opportunity to market their products and services to the World Bank in the countries participating in this project.

Organization of the Office

In addition to the Executive Director, the office has two Canadian advisors and one executive assistant. These officers are in constant communication with the Canadian government – not only with the Department of Finance, but also with CIDA and the Department of Foreign Affairs and International Trade. The Department of Finance co-ordinates Canada's policy advice and channels it to the Executive Director and through him to the World Bank.

Structure of the Executive Director's Office

Executive Director:	Len Good
Canadian Advisor:	Kathryn Hollifield
Procurement Advisor:	François Pagé
Canadian Assistant:	John Sinclair
Phone: (202) 458-0082; fax: (202) 477-4155	
Address: D-12-081, 1818 H St. N.W., Washington, D.C. 20433, U.S.A.	

One of the key roles of the office is to provide assistance to Canadian business people. While the Bank provides significant procurement opportunities, it is a large organization with an opaque structure that is often difficult for newcomers to navigate. Canada's procurement advisor, along with the Canadian Embassy in Washington, assists in providing advice and information on how to do business with the Bank. (Details are provided below.)

Another point of contact for Canada is the Bank's External Affairs Department, which is headed by Mark Malloch Brown. This department has designated Tim Cullen to be responsible for liaison with the governmental and NGO community in Canada. Mr. Cullen assist in providing information about the Bank and in bringing Bank personnel to Canada for seminars and presentations on key topics of mutual interest.

Canadian Procurement at the World Bank

Canadian companies and consultants often provide supplies, equipment or services to projects financed through the World Bank. Canadian expertise in the power, environmental, engineering, human resources, telecommunications, financial and transportation sectors has led to procurement opportunities for Canadian firms on developing country projects around the globe.

In fiscal year 1997, many Canadian firms continued to benefit from Canada's World Bank membership by accessing procurement opportunities under World Bank-financed loans. Fiscal year 1997 disbursements to Canadian companies for the supply of goods and services under Bank loans reached US\$155 million.

It is particularly noteworthy that Canadians continue to excel in the consulting field. Canadian consultants win more contracts on a per capita basis than any other supplying nation. As a per cent of disbursements, Canadian consulting firms ranked fourth in fiscal year 1997 among all supplying countries and accounted for almost 7 per cent of total disbursements. Canadian contracts were spread across a wide variety of countries, including China, Indonesia, the Russian Federation, Ghana, Ivory Coast, Bénin, Brazil, Bolivia and Venezuela.

Last year, Canadian companies received 142 contracts representing an increase of 10 per cent over fiscal year 1996. Two companies achieved particular success with Bank-financed projects. Tecsalt International Limitée won 10 contracts in six countries and SNC Lavalin received 10 contracts in eight different countries.

The 1997 results bring cumulative disbursements to Canadian companies to close to US\$3.4 billion. The Bank also reports on larger procurement contracts that have been awarded during the year even though project disbursements will occur in the future. In this regard, Canadian firms were awarded US\$83 million in fiscal year 1997.

Trust Fund Activities

A significant source of funds to facilitate increased Canadian participation in World Bank projects are the consultant trust funds supported by CIDA and administered by the World Bank. These are used to introduce new Canadian consultants to the Bank, as well as to encourage the Bank to undertake activities in areas of priority to Canada. In June 1995, CIDA concluded a new agreement with the World Bank, the *Cofinancing, Technical Assistance and Consultant Trust Fund Framework Agreement*, to govern all its trust fund arrangements with the Bank. These funds lead directly to contracts for Canadians in the feasibility, assessment and design of development projects.

In 1995, CIDA redesigned its Canadian Consultant Trust Fund (Country Specific), which supports Canadian consultants involved in the identification, preparation and implementation of World Bank-financed projects in

14 identified developing countries. CIDA and Environment Canada also negotiated the new Canadian Consultant Trust Fund for the Global Environment with the World Bank. For further information on these and other Canadian trust funds at the World Bank, contact Mary Stamp, Commercial Counsellor at the Canadian Embassy in Washington – phone (202) 682-7719; fax (202) 682-7789. Canadians can also access Bank funds through the Project Preparation Facility (PPF), the Global Environmental Facility (GEF) and the Policy and Human Resources Development Fund (PHRD).

International Finance Corporation

The International Finance Corporation is playing an increasingly important role in the Bank Group's private sector development activities. As the fastest growing entity within the Bank Group, it has also attracted the attention of Canadian companies and financial institutions that are interested in making direct investments in emerging markets.

One of the IFC's essential functions is to mobilize financing and expert advice in favour of private sector projects in emerging markets. The Corporation has been an excellent resource for Canadian financial institutions, as well as for Canadian firms whose technical expertise is particularly suitable for these markets.

Canadian Success Stories

In recent years, Canadian mining companies continued to be the prime beneficiaries of IFC financing and capital mobilization efforts. However, a number of Canadian companies from other key sectors have begun to work with the Corporation. In fiscal year 1997:

- the Bank of Nova Scotia provided a loan of US\$10 million to Owens Corning (India) Limited to help establish an export-oriented, world-scale fibreglass manufacturing plant;
- Chile's Fundicion Refimet copper smelter was expanded to a capacity of 150,000 tonnes per year with funding that included equity participation by Barrick Gold Corporation and Noranda Inc.; and
- Eagle Energy acted as a field operator for Aminex plc oil and gas reduction projects in Tunisia and the Russian Federation.

Perhaps the most significant development on the IFC front has been the return of Canadian financial institutions (typically commercial banks) to the IFC loan syndication program. This important program helps to mobilize private financing for IFC projects and provides financial institutions the opportunity to invest in emerging markets. By investing alongside the IFC,

financial institutions participating in the syndication program gain access to potential new customers, attain a high yielding asset and, with the presence of the IFC as an investor in these projects, are provided a degree of political risk coverage. In fiscal year 1997, Canadian financial institutions participated in seven loan syndications totalling US\$62 million.

Fiscal year 1997 syndicated loan partners included:

- Bank of Montreal (US\$16 million);
- Canadian Imperial Bank of Commerce (US\$11.4 million); and
- Toronto-Dominion Bank (US\$9 million).

Learning about Opportunities

Canadian firms, organizations and institutions that are interested in winning World Bank contracts are urged to attend monthly business briefings (held on the first Thursday of each month) at Bank headquarters in Washington.

Both the Canadian Embassy in Washington, through the Office for Liaison with International Financial Institutions (OLIFI) (202-682-7719), and the Canadian Executive Director's Office at the World Bank (202-458-0082), work to assist Canadian firms and consultants seeking to participate in World Bank-financed projects. The range of opportunities is wide – a power project in China, an environmental assessment in Peru, or a legal/judicial reform project in Russia are examples. The OLIFI and the Canadian Executive Director's Office at the World Bank also encourage Canadian companies to contact them if they are interested in competing for procurement contracts.

Canada's Financial Participation

IBRD

Canada's share of the IBRD capital is approximately 3 per cent. A relatively small proportion of this capital contribution is required to be "paid-in" – about 6 per cent overall, but just 3 per cent in the last capital contribution. The remainder is "callable", in the unlikely event that the IBRD needs it from member countries. Periodically, the IBRD replenishes its capital through General Capital Increases (GCIs). The IBRD's last such capital increase (GCI III) in 1988 was for US\$76.5 billion. Canada was allocated 19,655 new shares valued at US\$2.37 billion. The paid-in portion of these shares is US\$71.1 million. These shares were subscribed over a five-year period ending in 1993. As of June 30, 1997, Canada's cumulative subscriptions to the IBRD's capital stock totalled US\$5,404 million (44,795 shares), of which US\$335 million has been paid-in.

IDA

The IDA 11 Agreement reached in March 1996 resulted in a US\$22 billion replenishment. This will finance IDA's lending program over the three-year period to June 30, 1999.

IDA 11 Priorities

Rather than recommending new policy objectives, the IDA 11 negotiations focused on ensuring that assistance to the poorest countries is more effectively implemented. The IDA 11 Agreement places particular emphasis on improving the quality of country assistance strategies. Three critical recommendations came out of the negotiations:

- focus more on the impact of the Bank's operations, particularly on the poorest, through the development of impact indicators;
- ensure sufficient resources continue to be available for the poorest countries, particularly those in sub-Saharan Africa. However, underline that resources should be allocated first and foremost on the basis of sound economic performance; and
- encourage greater beneficiary participation in the preparation of Country Assistance Strategies (CASs).

A major Canadian priority in the IDA 11 negotiations was to ensure that significant resources continue to be directly targeted to the poor through IDA's Program for Targeted Interventions (PTI), which has been highly successful, as earlier noted.

The three-year package is composed of a one-year Interim Fund and a two-year IDA 11 exercise. (The Interim Fund was created because the U.S.A. was unable to participate in the first year of IDA 11.) Canada committed to a share of 3.5 per cent of the Interim Fund and 3.75 per cent of the two-year IDA 11 at a total cost of C\$607 million. To meet these obligations, Canada will issue three demand notes, in 1996, 1997 and 1998. Each of these notes is then encashed over a seven- to eight-year period. To the end of fiscal year 1997, Canada's cumulative contributions to IDA (subscriptions and contributions) were the equivalent of US\$3,987 million (including Special Fund contributions.)

IFC

The IFC's most recent General Capital Increase was approved in May 1992. Under this GCI, Canada can subscribe to as many as 35,366 new shares, valued at \$35.4 million. Payments for these shares are made over a five-year period. As of June 30, 1997, Canada's cumulative subscription to the IFC amounted to \$71.4 million, all of which was paid-in. This represents about 3.6 per cent of IFC's total capital.

MIGA

The Multilateral Investment Guarantee Agency was established in 1988 to encourage direct foreign investment in developing countries by protecting investors from certain non-commercial risks. Canada took up its subscription

to MIGA's capital stock in 1988. Of the \$32.1 million subscription, \$6.4 million has been paid-in, evenly divided between cash and demand notes. Canada's share of MIGA's capital is 2.7 per cent.

Future Challenges

The relative importance of the World Bank as financier has fundamentally changed in several developing countries where the private sector has stepped in to provide necessary financing. Total private capital flows to developing countries increased from US\$44 billion in 1990 to over US\$250 billion in 1997. Yet, private capital flows to developing countries have not been uniformly distributed. The major challenge for the future will therefore be for the Bank to find more creative ways to meet the increasingly diverse needs of its clients, some of which benefit from greater private capital, but many of which do not.

The Bank will face several other challenges in the coming year. As noted, the evolving situation in Southeast Asia will require increased resources and enhanced co-ordination with other international institutions and the private sector on financial sector reform (see below). At the same time, the Bank will need to look at more innovative ways to address the problems of the poorest countries, particularly those in sub-Saharan Africa. Recent innovations, such as the Bank's new adaptable lending instruments, should help, in part, to allow for more flexible approaches that create a better sense of ownership of Bank programs within individual countries.

Without careful attention to the unique needs of individual countries, the Bank will be unable to meet its objectives of improving the quality of its operations and strengthening its development impact. The Bank will need to further enhance its reform efforts under the Strategic Compact, particularly in the areas of project monitoring and implementation. Moreover, further enhancements in the quality of the portfolio will only be achieved if strict attention is paid to improving project design at entry.

JOINT ISSUES

Overview

The IMF and the World Bank are important institutions for Canada, each playing a unique role in the international economic and financial system. Nevertheless, there are key areas where the mandates of the two Bretton Woods institutions overlap, or where there is a requirement for close co-operation and co-ordination of activities. Indeed, at the Halifax Summit, G-7 leaders asked that efforts be made to increase co-operation and co-ordination between the IMF and the World Bank. The heads of both institutions have put considerable effort into fulfilling that objective. Two particular examples, the joint preparation of a proposed program of assistance for highly indebted poor countries and co-operation on addressing financial sector reform, are examined below.

Strengthening Financial Sectors

Problems in the financial sector, and especially the banking system, can be disruptive to growth and macroeconomic stability, and can spill over regionally and internationally. In response to concerns about such problems, the IMF and World Bank are devoting increasing attention to financial sector issues.

Preliminary discussions in both institutions in the past year have focused on how they can assist member countries establish and maintain sound financial systems. The emergence of the financial crisis in Asia underlines the importance of effective collaboration on financial sector activities.

It is important that Bank-Fund collaboration ensure that emerging financial sector problems are promptly identified, that each institution take the lead in its own areas of primary responsibility, and that duplication of activity is avoided. Although overlap in some areas may be unavoidable, there needs to be a clear delineation of responsibilities between the two institutions.

The Fund's involvement should relate primarily to the macroeconomic aspects of financial systems and markets. The Bank's primary concern should be with the sectoral and developmental aspects of financial systems in developing countries. It is especially important that the Fund aim to identify at an early stage systemic financial sector problems. The Bank should then follow with implementation of the restructuring of weak financial sectors.

However, the Fund has a role to play in banking system restructuring in crisis situations, particularly in countries where it has been active. Joint Fund-Bank missions in cases of financial crises would facilitate timely Bank involvement. Close collaboration is also required with other institutions and groupings working in the area of financial stability, particularly the Bank for International Settlements (BIS) and the Basle Committee on Banking Supervision.

Multilateral Debt Relief

In June 1995, at the Halifax Summit, the G-7 countries urged the Bretton Woods institutions to develop a comprehensive approach to address the special problems of the poorest countries with large multilateral debt burdens through the flexible application of existing instruments and the creation of new mechanisms for debt relief. Just over a year later, at the 1996 annual meetings of the IMF and World Bank, the details of a new debt initiative for heavily indebted poor countries (HIPC) were endorsed by the Interim and Development Committee.

The primary goal of this initiative (the "HIPC Initiative") is to ensure that HIPCs demonstrating a track record of sustained policy performance are able to achieve overall external debt sustainability, strengthen their poverty reduction programs and permanently "exit" from future debt rescheduling exercises.

To qualify for exceptional relief, a country must be IDA-only and face an unsustainable debt situation after the full application of current debt relief mechanisms. The sustainability of the debt burden is determined on the basis of the ratio of debt-to-exports and debt-service-to-exports (calculated in net present value terms). A debt-to-exports ratio in the range of 200 per cent to 250 per cent and a debt-service-to-exports ratio in the range of 20 per cent to 25 per cent is judged to be the upper limit of debt sustainability for HIPC.

The IMF and World Bank have estimated that full implementation of the initiative could require debt relief of about US\$7.5 billion of which more than US\$4 billion would come from multilateral institutions. During the course of 1997, it was agreed that four countries – Bolivia, Burkina Faso, Guyana and Uganda – would receive debt relief under the Initiative. The total assistance for these countries is estimated to amount to more than US\$1.2 billion in present value terms – or a reduction in nominal debt service of about US\$2 billion. Over the next few years, it is expected that about 20 countries will benefit from the exceptional debt relief provided by this Initiative.

Canada has been a strong supporter of the HIPC Initiative since its inception. We will continue to press for the earliest possible consideration of eligible countries for consideration under this Initiative. Canada will also continue to press for maximum flexibility in applying the Initiative to ensure generous treatment of all eligible countries.

Existing Mechanisms for Assisting Heavily Indebted Poor Countries

World Bank Mechanisms

Regular Lending – The World Bank makes IDA credits available on highly concessional terms. In general, these take the form of 40-year loans which carry no interest rate charges.

Enhanced Access – Countries which are making special efforts to clear their arrears or undertake comprehensive debt workouts are given increased access to relatively scarce IDA resources.

The Fifth Dimension Facility – IDA-only countries which have incurred past market-rate borrowings from the IBRD also receive annual interest rate subsidies. In recent years, these have had the effect of reducing the interest rate on these earlier IBRD loans from an average of about 6 per cent to less than 1 per cent.

IDA-Only Debt Reduction Facility – The IBRD provides grant financing (which carries no interest or principal) to eliminate up to 100 per cent of the debt which IDA-only countries owe to commercial banks. To date, this World Bank facility has extinguished almost US\$3 billion of commercial bank debt at no cost to these developing countries.

International Monetary Fund Mechanisms

Surveillance of Policies – In individual countries, the IMF provides advice which encourages the adoption of policies that provide a basis for sustained economic growth and price stability. More broadly, IMF surveillance of the global monetary system is aimed at promoting the balanced growth of world trade and an orderly and stable system of exchange rates.

Enhanced Structural Adjustment Facility – ESAF is the Fund's major source of concessional financing for low-income countries which are undertaking major reform efforts in the context of an IMF program. In recognition of the special challenges of these countries, ESAF provides loans which carry longer maturity periods and significantly lower interest rates than regular IMF arrangements.

Technical Assistance – Both the IMF and World Bank provide substantial technical assistance to low-income countries to help strengthen their debt management policies.

ANNEX 1

Active IMF Lending Arrangements – As of December 31, 1997

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
(million SDRs)				
Stand-by arrangements – Total			28,284.52	14,952.81
Argentina	April 12, 1996	January 11, 1998	720.00	107.00
Bulgaria	April 11, 1997	June 10, 1998	371.90	124.30
Djibouti	April 15, 1996	March 31, 1998	6.60	2.63
Egypt	October 11, 1996	September 30, 1998	271.40	271.40
El Salvador	February 28, 1997	April 27, 1998	37.68	37.68
Estonia	December 17, 1997	March 16, 1999	16.10	16.10
Hungary	March 15, 1996	February 14, 1998	264.18	264.18
Indonesia	November 5, 1997	November 4, 2000	7,338.24	5,136.77
Korea	December 4, 1997	December 3, 2000	15,500.00	7,300.00
Latvia	October 10, 1997	April 9, 1999	33.00	33.00
Romania	April 22, 1997	May 21, 1998	301.50	180.90
Thailand	August 20, 1997	June 19, 2000	2,900.00	1,100.00
Ukraine	August 25, 1997	August 24, 1998	398.92	253.86
Uruguay	June 20, 1997	March 19, 1999	125.00	125.00
EFF arrangements – Total			11,046.90	5,701.02
Algeria	May 22, 1995	May 21, 1998	1,169.28	253.28
Azerbaijan	December 20, 1996	December 19, 1999	58.50	33.35
Croatia	March 12, 1997	March 11, 2000	353.16	324.38
Gabon	November 8, 1995	November 7, 1998	110.30	49.63
Jordan	February 9, 1996	February 8, 1999	238.04	59.18
Kazakhstan	July 17, 1996	July 16, 1999	309.40	309.40
Moldova	May 20, 1996	May 19, 1999	135.00	97.50
Pakistan	October 20, 1997	October 19, 2000	454.92	417.01
Panama	December 10, 1997	December 9, 2000	120.00	110.00
Peru	July 1, 1996	March 31, 1999	300.20	139.70
Philippines	June 24, 1994	January 31, 1998	791.20	245.95
Russia	March 26, 1996	March 25, 1999	6,901.00	3,564.74
Yemen, Republic of	October 29, 1997	October 28, 2000	105.00	96.90

Active IMF Lending Arrangements – As of December 31, 1997 (Cont'd.)

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
				(million SDRs)
ESAF arrangements – Total			4,189.23	2,071.71
Armenia	February 14, 1996	February 13, 1999	101.25	50.63
Azerbaijan	December 20, 1996	December 19, 1999	93.60	38.02
Benin	August 28, 1996	August 27, 1999	27.18	18.12
Bolivia	December 19, 1994	September 9, 1998	100.96	16.82
Burkina Faso	June 14, 1996	June 13, 1999	39.78	19.89
Cameroon	August 20, 1997	August 19, 2000	162.12	135.10
Chad	September 1, 1995	August 31, 1998	49.56	16.52
Congo, Republic of	June 28, 1996	June 27, 1999	69.48	55.58
Ethiopia	October 11, 1996	October 10, 1999	88.47	73.72
Georgia	February 28, 1996	February 27, 1999	166.50	55.50
Ghana	June 30, 1995	June 29, 1998	164.40	109.60
Guinea	January 13, 1997	January 12, 2000	70.80	47.20
Guinea-Bissau	January 18, 1995	July 24, 1998	10.50	2.36
Guyana	July 20, 1994	April 17, 1998	53.76	–
Haiti	October 18, 1996	October 17, 1999	91.05	75.88
Kenya	April 26, 1996	April 25, 1999	149.55	124.63
Kyrgyz Republic	July 20, 1994	March 31, 1998	88.15	–
Macedonia, FYR	April 11, 1997	April 10, 2000	54.56	36.37
Madagascar	November 27, 1996	November 26, 1999	81.36	54.24
Malawi	October 18, 1995	October 17, 1998	45.81	15.27
Mali	April 10, 1996	April 9, 1999	62.01	20.67
Mauritania	January 25, 1995	July 13, 1998	42.75	–
Mongolia	July 30, 1997	July 29, 2000	33.39	27.83
Mozambique	June 21, 1996	June 20, 1999	75.60	37.80
Niger	June 12, 1996	June 11, 1999	57.96	28.98
Pakistan	October 20, 1997	October 19, 2000	682.38	568.65
Senegal	August 29, 1994	January 12, 1998	130.79	–
Sierra Leone	March 28, 1994	May 4, 1998	101.90	5.06
Tanzania	November 8, 1996	November 7, 1999	161.59	74.47
Togo	September 16, 1994	June 29, 1998	65.16	21.72
Uganda	November 10, 1997	November 9, 2000	100.43	80.34
Yemen, Republic of	October 29, 1997	October 28, 2000	264.75	220.75
Zambia	December 6, 1995	December 5, 1998	701.68	40.00
Total			43,520.65	22,725.54

ANNEX 2

World Bank Loans and IDA Credits –

Fiscal Year 1997 (July 1, 1996 – June 30, 1997)

	World Bank Amount	IDA Amount	Total Amount
(millions of US \$)			
By area			
Africa	56.0	1,680.7	1,736.7
East Asia and Pacific	4,074.4	791.6	4,866.0
South Asia	626.5	1,385.1	2,011.6
Europe and Central Asia	4,560.9	439.9	5,054.8
Latin America & the Caribbean	4,437.5	125.2	4,562.7
Middle East & North Africa	769.6	145.2	914.8
Total	14,524.9	4,621.7	19,146.6
By purpose			
Agriculture	2,810.6	735.9	3,546.5
Education	762.3	255.1	1,017.4
Electric power and other energy	1,613.4	275.8	1,889.2
Environment	22.5	224.2	246.7
Finance	993.7	201.1	1,194.8
Health, population and nutrition	245.8	694.1	939.9
Industry	145.0	50.5	195.5
Mining/Other Extractive	300.0	21.4	321.4
Multisector	1,373.0	813.6	2,186.6
Oil and Gas	114.0	21.6	135.6
Public sector Management	729.7	190.2	919.9
Social sector	1,303.7	66.5	1,370.2
Telecommunications	–	–	–
Transportation	3,084.7	607.0	3,691.7
Urban development	646.1	162.3	808.3
Water supply and sanitation	380.4	302.4	682.8
Total	14,524.9	4,621.7	19,146.6

ANNEX 3

World Bank Loans and IDA Credits to Developing Countries

	World Bank		IDA		Total	
	No.	Amount	No.	Amount	No.	Amount
(millions of U.S. dollars)						
By fiscal year¹						
Cumulative to 1968	549	11,418.1	116	1,831.8	665	13,249.9
Total 1969-1973	374	8,917.8	273	3,931.6	647	12,849.4
Total 1974-1978	666	24,372.3	376	7,947.4	1,042	32,319.7
Total 1979-1983	711	44,908.0	518	16,368.1	1,229	61,276.1
1983-1984	129	11,947.2	106	3,575.0	235	15,522.2
1984-1985	131	11,356.3	105	3,028.1	236	14,384.4
1985-1986	131	13,178.8	97	3,139.9	228	16,318.7
1986-1987	127	14,188.2	108	3,485.8	235	17,674.0
1987-1988	118	14,762.0	99	4,458.7	217	19,220.7
1988-1989	119	16,433.2	106	4,933.6	225	21,366.8
1989-1990	121	15,179.7	101	5,522.0	222	20,701.7
1990-1991	126	16,392.2	103	6,293.3	229	22,685.5
1991-1992	112	15,156.0	110	6,549.7	222	21,705.7
1992-1993	122	16,944.5	123	6,751.4	245	23,695.9
1993-1994	124	14,243.9	104	6,592.1	228	20,836.0
1994-1995	134	16,852.5	108	5,699.2	242	22,521.8
1995-1996	129	14,656.0	127	6,864.0	256	21,520.0
1996-1997	141	14,525.0	100	4,622.0	241	19,147.0
Total	4,064	295,263.7	2,780	101,563.3	6,844	396,827

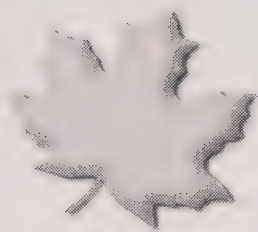
¹Fiscal years are those of the World Bank Group (July 1 to June 30).

ANNEX 4

Disbursements by the World Bank and IDA Borrowers –

Goods and Services from Canada – to June 30, 1997

	World Bank Amount	IDA Amount	Total Amount
(millions of U.S. dollars)			
By calendar year			
Cumulative to December 1960	133.5	—	133.5
1961	8.2	—	8.2
1962	3.7	—	3.7
1963	5.6	7.4	13.0
1964	4.7	1.8	6.5
1965	5.4	2.7	8.1
1966	11.6	5.3	16.9
1967	13.2	14.7	27.9
1968	6.3	7.8	14.1
1969	4.4	11.0	15.4
1970	7.6	1.3	8.9
1971	11.1	2.2	13.3
1972	10.5	2.3	12.8
1973	12.4	5.1	17.5
1974	15.8	8.4	24.2
1975	22.1	15.0	37.1
1976	25.7	10.8	36.5
1977	34.5	4.8	39.3
1978	26.1	5.5	31.6
1979	44.4	8.1	52.5
1980	51.5	7.8	59.3
1981	94.3	14.5	108.8
1982	75.0	17.6	92.6
1983	82.3	26.9	109.2
1984	92.6	54.3	146.9
1985	94.3	39.7	134.0
1986	184.8	46.8	231.6
1987 (January-June)	92.8	23.4	116.2
By fiscal year			
1988 (July 1 – June 30)	182.1	47.4	229.5
1989	197.0	45.0	242.0
1990	164.0	41.0	205.0
1991	139.0	34.0	173.0
1992	131.0	38.0	169.0
1993	151.0	41.0	192.0
1994	115.0	69.0	184.0
1995	123.0	48.0	171.0
1996	169.0	56.0	225.0
1997	113.0	42.0	155.0
Total	2,609.0	781.0	3,390.0
Per cent of total disbursements	2.32	1.83	2.18
Per cent of FY 1997 disbursements	3.14	2.33	2.87



REPORT ON

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THE BRETTON WOODS

AND RELATED

AGREEMENTS ACT

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INTRODUCTION

The Bretton Woods institutions – the International Monetary Fund (IMF) and the World Bank – were founded at a conference held in Bretton Woods, New Hampshire, in 1944. The IMF was established to promote the smooth functioning of the international monetary system, encourage international trade and support high rates of sustainable economic growth. The IMF (or the “Fund”) has become a central institution in the international monetary system. It exercises a surveillance function by monitoring members’ economic policies, provides policy advice and extends short- and medium-term financial assistance to countries faced with balance of payments difficulties.

The World Bank’s goal is to reduce poverty by raising living standards and by promoting sustainable development in developing countries. As the premier development institution in the world, it provides a wide range of assistance to developing countries, including lending and technical assistance for projects which promote sustainable growth and an improved quality of life, and structural economic policy advice. The World Bank Group is comprised of four organizations: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The IBRD and IDA together are commonly referred to as the “World Bank” (or the “Bank” in the following). IDA is the component that provides assistance to the world’s poorest developing countries.

Canada is the eighth largest member of the Fund and the Bank after the six other G-7 countries and Saudi Arabia. Canada’s formal participation is authorized under the *Bretton Woods and Related Agreements Act*. Under Section 13 of the Act, it is stated that:

“The Minister of Finance shall cause to be laid before Parliament, on or before March 31 next following the end of each year or, if Parliament is not then sitting, on any of the first thirty days next thereafter that either House of Parliament is sitting, a report containing a general summary of operations under this Act and details of all those operations that directly affect Canada, including the resources and lending of the World Bank Group, the funds subscribed or contributed by Canada, borrowings in Canada and procurement of Canadian goods and services.”

The sections that follow review the activities and operations of first the IMF and then the World Bank for the year 1998. A final section deals with issues common to both institutions. The annexes contain detailed numerical summaries of the year’s activities.

Roles of the IMF and World Bank

International Monetary Fund

- Oversees the international monetary system and promotes international monetary co-operation.
- Promotes exchange rate stability and orderly exchange relations among member countries.
- Provides short- to medium-term financial support to members facing balance of payments difficulties.
- Draws its financial resources primarily from the quota subscriptions of its members.

World Bank

- Promotes economic development and structural reform in developing countries.
- Provides support for poverty reduction through investments in health and education.
- Assists developing countries through long-term financing of development projects and programs.
- Provides special financial assistance to the poorest developing countries through the International Development Association.
- Stimulates private enterprises in developing countries primarily through its affiliate, the International Finance Corporation.
- Secures most of its financial resources by borrowing on international capital markets.

INTERNATIONAL MONETARY FUND

Overview

As a major trading nation, Canada has a major stake in a strong international monetary system that promotes the free movement of goods, services and financial assets. The IMF is important to ensuring a sound world financial system and broad-based economic growth through assistance to countries experiencing unsustainable external imbalances and related economic difficulties.

Benefits of Membership

IMF membership provides a number of specific benefits:

- The Minister of Finance is a Governor of the Fund and elects an Executive Director to its 24-member Executive Board. This representation allows Canada to have high-level influence on decisions taken by the IMF on specific country assistance programs and major policy issues affecting the world financial system.
- The IMF, through its regular surveillance of member country economies, provides Canada with an independent source of policy advice on macroeconomic policies and engages in regular dialogue on these policies with Canadian officials at the Department of Finance, the Bank of Canada and other government agencies.
- The efforts of the IMF to ensure countries abide by their obligations under Fund-supported programs help ensure that they repay Canadian bilateral loans and use our bilateral development assistance effectively.
- Canada earns a market rate of return on its financial position in the IMF.
- Were Canada ever to experience severe balance of payments difficulties, it would have the right to approach the IMF for financial assistance.

How the IMF Works

The IMF works like a credit union. It has a large pool of resources that it makes available in several ways to help members finance temporary balance of payments problems.

Members provide resources to the IMF in amounts determined by "quotas" reflecting each country's relative importance in the world economy. A country's quota in turn helps determine the amount of Fund resources that it may use if it experiences economic difficulties. At the end of 1998, the total quotas for the Fund's 182 members was SDR¹ 145.3 billion.

A member country uses the general resources of the IMF by making a purchase (drawing) of other members' currencies with an equivalent amount of its own currency. A member repurchases (repays) its own currency from the IMF with other members' currencies over a specified period of time, with interest. In this way, a member country receives credit from other members.

Members seeking financial assistance can draw on a "reserve tranche" and four "credit tranches," each amounting to 25 per cent of their quota. For access to resources beyond the first credit tranche, the member and the IMF have to reach a mutual agreement on a set of economic measures and reforms aimed at removing the source of the country's balance of payments difficulty and creating the conditions necessary for sustainable non-inflationary growth.

Depending on the prospective duration of the problem, these measures are agreed to as part of a Stand-by Arrangement or an Extended Fund Facility. Stand-by arrangements typically last 12 to 18 months while extended arrangements generally run for three years. Emergency financing for countries in crisis situations that could spill over to other countries is also available through the Supplemental Reserve Facility created in December 1997.

Members can also use financial facilities created for specific purposes, including the Compensatory and Contingency Financing Facility, which provides financial support to members experiencing temporary export shortfalls or other unforeseen adverse external shocks.

Concessional financing to low-income developing countries under the Enhanced Structural Adjustment Facility is made available in the form of low-interest loans with extended maturity periods.

¹ The SDR (special drawing right) is the standard unit of account for the IMF's operations. It represents a weighted basket of five major currencies – the US dollar, the Japanese yen, the pound sterling and Euro values for the German mark and the French franc. At the end of 1998, the exchange rate was SDR 1 = C\$2.15.

Canada's Priorities at the IMF

Global Economic and Financial Stability

A key objective is to ensure that the IMF is able to cope with the emerging needs of the world economy and can deal with any new crises that might arise, such as the one which affected many emerging markets beginning in mid-1997 and continuing through 1998. This requires that the Fund move quickly to adapt its lending facilities and policies. Discussions continued during 1998 on a number of initiatives. Some of these represented the continuation of themes first advanced at the 1995 G-7 Summit in Halifax. However, many others reflected initiatives stemming from ongoing discussions with Canada's international partners, in response to problems revealed by the unfolding crisis. The key elements of these proposals included:

- identifying problems before they reach crisis proportions by strengthening the IMF's surveillance of national policies and financial market developments;
- encouraging the Fund to make greater efforts to help strengthen financial sectors in emerging markets, and improve co-operation between the Fund and the World Bank on financial sector issues;
- encouraging the IMF to refine its understanding of capital account liberalization by studying the experience of countries that have undertaken liberalization, with the ultimate goal of providing developing countries with a practical guide to capital account liberalization, aimed at codifying best practices and spelling out appropriate defence mechanisms for countries at different stages of development;
- helping to ensure that private-sector investment in emerging markets reflects a correct assessment of the underlying economic circumstances of countries, through greater transparency in their public sector, including more timely and higher quality economic and financial data; and
- ensuring that the Fund has adequate resources for its regular lending operations through approval of the Eleventh General Review of Quotas, and has adequate liquidity to respond to financial emergencies through approval of the New Arrangements to Borrow, which represent a doubling of the resources available to the IMF under the General Arrangements to Borrow.

As a follow-up to these recommendations, the Executive Board of the Fund initiated action four years ago in a number of areas. The financial crisis that has affected a number of emerging markets since mid-1997 and the ongoing challenges posed by an increasingly integrated global economic system reinforced the importance of the Fund carrying through with these initiatives. In particular, this includes the important work underway to improve the architecture of the international monetary system in the areas of transparency, provision and publication of data, international standards and strengthening of financial sectors.

Emerging Market Financial Crises

Over the past year the IMF has worked together with other members of the international community to try to avert or contain financial crises in emerging market economies. Substantial financial resources have been mobilized, as necessary, to help countries experiencing temporary liquidity problems. However, as was evident in the case of Russia, IMF assistance can only be maintained as long as the country involved demonstrates the desire to implement the necessary reform measures. International financial assistance is not a substitute for prudent domestic policy actions.

During the latter half of 1997, the IMF was a key player in international efforts to restore stability to East Asia. However, despite the significant amount of international support, confidence has been slow to return to the region. Economic turmoil has been compounded by political problems in some countries, notably Indonesia. Output in the economies of East Asia hardest hit by the economic turmoil declined sharply in 1998. However, there were signs late in the year that a turnaround was in sight – notably in Korea and Thailand, where implementation of their IMF programs has been good. The US\$17.2-billion international assistance package for Thailand included a US\$500-million loan from Canada.

The financial market turmoil spread to other emerging market economies in 1998. As financial pressures rose in the Russian economy in the spring, the IMF led an international effort to try to avert a crisis in that economy. The IMF approved financial support of US\$15.1 billion for Russia (including a previous commitment of US\$3.9 billion), as part of a broader international support package that totalled US\$22.6 billion. However, pressures on the Russian economy continued to mount, reflecting inadequate political commitment to implement the fundamental economic reforms needed to put the economy on a sustainable footing. In August, the Russian government effectively devalued the ruble and defaulted on some of its domestic debt. This led to the postponement of the international assistance package.

The Russian crisis resulted in a sharp widening of emerging market bond spreads, relative to comparable US Treasuries, as financial market participants became more cautious about investing in emerging market economies. The spillover effect from the Russian crisis was particularly pronounced in Latin America, most notably Brazil.

Concern over a devaluation in the Brazilian *real* led to capital flight and forced authorities to draw down foreign exchange reserves in defence of the crawling peg for the exchange rate. On November 13, an IMF-led international financial assistance package totalling US\$41.6 billion was announced for Brazil. As part of this package, Canada is participating in a Bank for International Settlements Credit Facility (of about US\$13.28 billion) by guaranteeing up to US\$500 million plus interest. While the package initially buoyed optimism

in the Brazilian economy, the slow progress made in passing the necessary fiscal consolidation measures led to a renewed bout of investor pessimism. Financial pressures became so intense that on January 15, 1999 the Brazilian authorities let the *real* float. The IMF and Brazil have agreed on the details of a modified IMF program that takes into account the changes to Brazil's economic outlook. These modifications were approved by the Executive Board in March.

IMF-Led Packages for Russia and Brazil

Contributions (in billions of US dollars)

Donor	Russia	Brazil
IMF	15.1 (267% of quota) ¹	18.1 (600% of quota) ²
Other international financial institutions	6.0	9.35
Bilateral	1.5	14.18
Total	22.6	41.6

¹ Financed partially through the General Arrangements to Borrow

² Financed partially through the New Arrangements to Borrow

Transparency and Accountability in the Fund's Own Operations

Greater information on the activities of the IMF contributes to greater public understanding of the institution. For this reason, Canada has supported measures to enhance the transparency and accountability of the Fund's own operations. The Fund has responded to the concerns of members for ensuring transparency by making available significantly more information on its activities. This includes publication of country reports, increased dissemination of information on the Fund's annual consultations with member countries, and opening of the archives for documents that are more than 30 years old. At Canada's instigation, the Fund began to examine ways in which it communicates its work to the public. In addition, the Fund is encouraging member countries to release Letters of Intent and Policy Framework Papers that underpin Fund-supported programs.

The Fund is also encouraging countries to publish the "mission statements" that are prepared at the time of the IMF's annual consultations with member countries. Prior to the preparation of the staff's report to the Executive Board, the IMF mission often provides the authorities with a statement of its preliminary findings at the conclusion of its discussions with the authorities. A number of countries, including Canada, are now releasing these statements.

In May 1997, the IMF inaugurated a new series of Public Information Notices (PINs) that provide background information on a member country's economy and the IMF's assessment of the country's policies and prospects. PINs are issued at the country's request following the conclusion of the Fund's regular consultation with the member. Canada's most recent PIN was published February 5, 1999. An increasing number of countries have agreed to the publication of PINs with over two-thirds of countries now agreeing. The Fund is also proposing issuing PINs on policy papers and regional economic reviews.

Canada has placed great importance on the establishment of an independent evaluation process that can impartially assess IMF activities on a regular basis. In this context, the IMF launched an evaluation by independent external experts of several aspects of Enhanced Structural Adjustment Facility (ESAF)-supported programs. This followed the internal IMF staff review of the experience of reform programs under the ESAF in 1997. The external evaluation concentrated on three topics: developments in countries' external positions during ESAF-supported programs; social policies and the composition of government spending during ESAF-supported programs; and the effect of countries taking "ownership" of ESAF-supported programs. The experts completed their report in early 1998.

The external report recommended that ESAF programs pay greater attention to the social impact of adjustment, particularly on the most vulnerable groups, and routinely undertake a broader review of policy alternatives to better entrench government ownership and commitment. In July 1998, the IMF's Executive Board discussed a follow-up report prepared by the staff, entitled *Distilling the Lessons of the ESAF Reviews*. Although Executive Directors continued to view the ESAF as an effective and valuable instrument in supporting macroeconomic adjustment and structural reform in low-income countries, they endorsed proposals to strengthen the design and implementation of ESAF-supported programs in the light of the findings of the internal and external ESAF reviews. At the urging of Canada and other countries, the IMF published the external evaluators' report and other documents related to the exercise, and broadened the process further by asking the general public to comment.

Two additional external evaluations were launched in 1998 and are expected to be completed in 1999. One is an evaluation of the overall effectiveness of the IMF's surveillance of member countries' policies. The other is an evaluation of the IMF's research activities.

In response to increased public interest in the IMF's financial position and the desire of members such as Canada for enhanced operational transparency, in November 1998 the Fund began to publish at intervals throughout the year information on its financial resources and liquidity position, in addition to the data already available in the institution's annual report and other publications.

How to Access Information from the IMF

A vast array of Fund information – including fact sheets, press releases, speeches, *IMF Survey*, annual reports, world economic outlooks, staff country reports, and working papers – is available on the Fund's public Web site at <http://www.imf.org/>. In addition, the IMF's Publication Services provides a wide variety of Fund documents on the policies and operations of the IMF as well as world financial and economic developments. These include:

- IMF annual report
- *World Economic Outlook*
- IMF staff country reports
- *International Financial Statistics*
- *Annual Report on Exchange Arrangements and Exchange Restrictions*
- press releases
- *IMF Survey*

The Publications Centre is located at 700 – 19th Street N.W., Washington, DC 20431, USA. Phone: (202) 623-7430; fax: (202) 623-7201. Internet address: publications@imf.org.

Provision and Publication of Data

Following the 1995 Halifax Summit, the Fund also initiated work on new data standards to better inform markets of financial and economic developments and to strengthen Fund surveillance. Countries that are capital market borrowers are now making comprehensive data available to the public on a timely basis under the IMF's Special Data Dissemination Standard (SDDS) established in April 1996. Information on the statistical practices of members subscribing to the new standard is posted on the IMF's Dissemination Standards Bulletin Board (DSBB) on the Internet (<http://dsbb.imf.org/>). Canada was one of the first countries to subscribe to the new standard, and information on Canada's statistical practices is posted on the DSBB at <http://dsbb.imf.org/country/cancats.htm>.

The Fund reviewed progress under the SDDS in 1998 and approved a number of measures related to its operation, including extending to the end of 1999 when subscribing countries are to be in full observance of the standard, making the dissemination of annual data on international investment positions a requirement by the end of 2001, and prescribing mandatory hyperlinks from the DSBB to national data sites by the end of 1999.

The recent financial crises in a number of emerging markets demonstrated additional shortcomings in the public availability of data on external debt and international reserves with regard to forward operations and the usability of reserves. Disclosure of information on the financial situation of commercial banks was also unsatisfactory. At the urging of Canada and other members, the IMF is continuing to examine ways to expand the SDDS to improve coverage of these areas.

Standards

The Fund is also contributing to the development and dissemination of international standards in other areas. In 1998, the Fund adopted a Code of Good Practices on Fiscal Transparency to guide member countries in enhancing the accountability and credibility of fiscal policy. Members are encouraged to implement the Code on a voluntary basis. The Fund is also developing, in consultation with central banks and international financial supervisory authorities, a similar code with respect to monetary and financial policies.

New Arrangements to Borrow

At the Halifax Summit, the Group of Seven asked the Group of Ten (G-10) and other countries with the capacity to support the international monetary system to develop financing arrangements aimed at doubling the amount of resources currently available under the General Arrangements to Borrow (GAB) (a credit arrangement which backstops the IMF's regular resource base) and enlarging the number of countries that could provide exceptional financial assistance to the IMF. A G-10 Working Group, chaired by Canada, undertook consultations with potential new participants.

The Fund's Executive Board approved the New Arrangements to Borrow (NAB) in early 1997, effectively doubling the resources, or credit, currently available to the IMF through the GAB. The resources are provided by the G-10 countries and some 14 other industrial countries and emerging economies judged to have the capacity to support the international financial system. The broader participation of the NAB underlines the changing nature of the global economy and the willingness of emerging economies to share responsibility for managing the international monetary system.

The NAB came into force November 17, 1998 and was activated for the first time on December 2, 1998 in support of the IMF's Stand-by Arrangement with Brazil. The NAB participants, including Canada, agreed to lend up to SDR 9.1 billion in support of the Fund's financing to Brazil through its Supplemental Reserve Facility, of which SDR 2.9 billion was made available in 1998.

New Arrangements to Borrow

The main features of interest of the New Arrangements to Borrow (NAB) are:

- Participating countries will make loans to the IMF when supplementary resources are needed to forestall or cope with an impairment of the international monetary system, or deal with an exceptional situation that poses a threat to the stability of the system.
- Twenty-five countries have agreed to lend up to SDR 34 billion (about C\$73 billion) to the Fund in the case of financial emergencies.
- Canada's share in the arrangement is 4.1 per cent, in the form of a commitment to provide non-budgetary loans to the IMF from its international reserves.
- The NAB does not replace the General Arrangements to Borrow (GAB), which will remain in force. However, the NAB will be the first and principal recourse of the IMF in the event of a need for supplementary resources.

Quota Review

The Fund must have adequate resources to maintain its effectiveness as a monetary institution addressing temporary balance of payments problems through support of sound adjustment policies. Reviews of Fund quotas are conducted at regular intervals, and no less frequently than every five years, to replenish its regular or quota-based resources. The IMF reached agreement under the Eleventh General Review in 1997 on a 45-per-cent increase in IMF quotas to SDR 212 billion (US\$297 billion). Seventy-five per cent of the overall increase was distributed among all members in proportion to their existing quotas. The balance of the increase was distributed so as to better align members' quotas with their relative positions in the world economy. The new quotas came into effect January 22, 1999 when the IMF determined that members having 85 per cent of total quotas had ratified their increased quotas. Canada's quota was raised from SDR 4,320.3 million to SDR 6,369.2 million.

SDR Allocation

For a number of years, the IMF has been examining ways to help redress inequities in the present distribution of SDRs arising from the fact that a number of new members, including Russia and the other former centrally planned economies, have not participated in previous allocations. At the IMF/World Bank annual meetings in September 1997, IMF Governors approved a special one-time allocation of SDR 21.4 billion that will ensure that all members receive an equitable share of cumulative SDR allocations.

The one-time allocation, which requires an amendment of the Fund's Articles of Agreement, will double the amount of SDRs already allocated. The allocations to be provided to member countries will establish a common "benchmark" of cumulative allocations to members' Ninth Review quotas. The allocation will be made when the amendment has been accepted by the governments of three-fifths of IMF members having 85 per cent of total voting power.

Special Drawing Rights

- The special drawing right (SDR) is an international reserve asset created by the IMF and allocated periodically to its members as a supplement to their foreign currency and gold reserves.
- A general SDR allocation requires a determination by the IMF Board of Governors that there is a global need to supplement existing reserve assets.
- SDRs were first allocated to members in 1970. There have been two other general allocations, the most recent undertaken in 1981. The outstanding stock of SDRs currently totals SDR 21.4 billion.

Canada has received allocations totalling SDR 779.3 million. Following the special one-time allocation, Canada's allocations will increase to SDR 1,266.5 million.

Governance

A significant initiative in 1997 was the adoption of guidelines regarding the role of the Fund in issues of governance. The guidelines (News Brief 97/15 on the Fund's Web site) reflect the increased importance that Fund members place on good governance and support a more active Fund approach in advocating policies and administrative practices that reduce the opportunity for corruption in the management of public resources.

Canada led efforts in 1998 to get the IMF to more explicitly inform countries of concerns about the links between poor governance and weak economic performance, and to delay or suspend IMF support until countries have taken appropriate corrective action. Canada also encouraged the Fund to work with member countries to improve the quality of government expenditures by reducing outlays for unproductive purposes, such as costly military budgets, thereby making room for productive spending on primary health care and basic education, for example.

Capital Account Liberalization

In 1998, in response to the efforts of a number of countries including Canada, the focus of the Fund's involvement in the issue of capital account liberalization shifted away from a discussion of the need for a formal extension of its jurisdiction in this area to ways of providing better policy advice to help countries on the path to orderly capital account liberalization. This reflects the view that, although capital account liberalization can bring important benefits, it can also increase countries' vulnerability to sudden shifts in investor sentiment. This is particularly the case if they rely heavily on short-term capital flows, or have weak domestic financial sectors.

An important lesson from the 1998 financial crises is that the opening of the capital account must be carried out in an orderly, gradual and well-sequenced manner. To this end, Canada has called for the IMF to play an expanded role in this area by developing a practical guide, or "roadmap," for safe capital liberalization in developing countries. The objective would be to codify best practices and spell out appropriate policies for countries at different stages of development.

Lending Developments in 1998

A core activity of the Fund is to provide short- and medium-term financial assistance to members faced with balance of payments difficulties. The objective is to enable countries facing such difficulties to correct temporary payments imbalances with a minimum of disruption to the international monetary system. The provision of financing from the IMF, and the additional financing that an arrangement with the Fund often attracts from other sources, enables countries to undertake smoother economic adjustment.

At the end of 1998, the IMF had lending arrangements worth SDR 61.2 billion in place for 59 member countries (see Annex 1). Drawings by these countries in 1998 increased to a record level of SDR 21.5 billion. The increase in lending was primarily the result of drawings under new financial arrangements with Russia and Brazil as well as drawings under existing arrangements with Korea and other members affected by the Asian crisis.

Table 1
IMF Resource Flows

	1997	1998
	(in SDR billions)	
Total purchases	16.8	21.5
Of which:		
Stand-by Arrangements	13.2	12.1
Extended Fund Facility	2.8	6.3
Compensatory and Contingency Financing Facility	0.1	2.2
Enhanced Structural Adjustment Facility	0.7	0.9
Total repurchases	5.7	6.7
Net purchases	11.1	14.8

In 1998 lending increased sharply under the Extended Fund Facility (EFF), mainly to Russia and Indonesia. In July 1998, Russia's existing EFF arrangement was augmented by SDR 6.3 billion. Nearly half of the initial disbursement was made available to Russia through the Supplemental Reserve Facility (SRF), the Fund's short-term lending facility that addresses crisis situations which could spill over to other countries. In August 1998, Indonesia's existing stand-by credit was replaced by an EFF arrangement designed to address the country's deep-seated structural problems and provide a longer repayment period than was available under the stand-by credit.

The continued high level of disbursements under stand-by arrangements in 1998 was sustained by a large drawing made late in the year under the new arrangement approved for Brazil. Most of the drawing was made available under the SRF.

Lending rose slightly under the IMF's concessional facility, the Enhanced Structural Adjustment Facility. Russia accounted for the full amount of SDR 2.2 billion disbursed under the Compensatory and Contingency Financing Facility, one of the Fund's other special-purpose facilities.

Managing Canada's Interests at the IMF

The Minister of Finance is Canada's Governor at the IMF and is responsible for the management of Canadian interests at the Fund. The Minister exercises influence on IMF issues through Canada's Executive Director at the Fund's Executive Board, interventions at the spring and fall meetings of the Interim Committee, his plenary speech at the IMF/World Bank Annual Meetings and periodic meetings with the Managing Director of the Fund. (The Minister's speeches are available on the Department of Finance Web site located at <http://www.fin.gc.ca/>) The Governor of the Bank of Canada is Canada's Alternate Governor of the IMF. The Governor also attends the spring and fall meetings of the Fund.

The management of Canada's interests in the ongoing work of the IMF is the responsibility of the Executive Director, Mr. Thomas A. Bernes, Canada's representative on the Executive Board. Mr. Bernes is one of 24 Executive Directors. In addition to Canada, he represents 11 other countries (Ireland and 10 Caribbean countries), which form a constituency at the Executive Board. Of the 24 members of the current Executive Board, 12 are from developing or transition countries and 12 from industrial countries. As the main decision-making body of the Fund, the Board normally meets three times a week.

The Department of Finance co-ordinates Canadian policy advice on IMF issues and Canada's operational interests in the IMF. The Bank of Canada also works closely with the Department of Finance in providing advice on issues of interest to Canada's Executive Director. Other involved departments and agencies include the Department of Foreign Affairs and International Trade Canada and the Canadian International Development Agency. Within the Department of Finance, the International Finance and Economic Analysis Division is specifically responsible for conducting analyses and preparing advice on the policy issues and specific country programs that are brought before the Executive Board.

Parliament is informed of the activities and operations of the Bretton Woods institutions through the tabling of the annual report on the operations of the Bretton Woods institutions, the communiqués of the Interim and Development Committees and appearances of the Canadian Executive Directors and departmental officials before parliamentary committees.

Canada's Voting Record

Since most decisions at the Fund are taken on a consensus basis, formal votes by Governors and the Executive Board are rare. Canada attempts to influence the development of Fund policy proposals before they are brought to the Board (often through the circulation of memoranda outlining Canadian positions) or to influence other members in the course of Board discussions. But in 1998 Canada abstained on the vote to increase IMF staff salaries. In early 1999 Canada also abstained on a vote to approve Pakistan's request for financial assistance.

Canada's Office at the IMF

In addition to the Executive Director, Canada's office is staffed by a Canadian advisor and two technical assistants. Ireland staffs the Alternate Director's position and the Caribbean countries occupy a second advisor's position.

Canadian Members of the Executive Director's Office

Executive Director:	Mr. Thomas A. Bernes
Canadian Advisor:	Mr. Mostafa Askari
Canadian Assistant:	Mr. Jeff Chelsky
Canadian Assistant:	Mr. John Nelmes
Phone:	(202) 623-7778; fax: (202) 623-4712
Address:	11-100, 700 – 19th Street N.W., Washington, DC 20431, USA

The primary responsibility of the Executive Director's Office is to represent the interests of Canada and the other members of the constituency at the Fund's Executive Board. The office participates in the Board's discussions of a wide variety of policy, operational and administrative matters, including surveillance issues and country assistance requests and reviews.

Canada's Financial Participation

Canada's financial participation in the IMF consists primarily of its quota subscription. Canada's quota following the recent increase, associated with the coming into effect of the Eleventh Review, is SDR 6,369.2 million, or about 3 per cent of total quotas. Our quota subscription is a government asset, which we make available to the Fund partly in Canadian dollars and partly in reserve currencies, such as US dollars or SDRs. These latter non-Canadian dollar amounts continue to be part of Canada's foreign exchange reserves. As an asset, Canada's quota subscription is not recorded as an expenditure item in the budget of the Canadian government.

Only a tiny portion of the Canadian dollar part of our subscription is actually held in cash by the IMF. The balance is held by the Bank of Canada in the form of demand notes, which are available to the Fund in the event it needs to draw upon additional resources. Canada earns interest on its quota subscription when the Canadian dollar is used in Fund lending operations, i.e., drawn by other member countries. In 1998, Canada received SDR 36.4 million on its net creditor position in the IMF. In addition, Canada received SDR 0.8 million in interest on General Arrangements to Borrow lending to the IMF (additional information on this lending is provided below).

Table 2

Canada's Financial Position in the IMF

	December 31, 1998	December 31, 1997
	(in SDR millions)	
Quota	4,320.3	4,320.3
Fund holdings of Canadian dollars	2,892.1 ¹	3,153.0 ¹
Reserve position in the Fund	1,428.2 ²	1,167.3 ²

¹ In accordance with Fund regulations, at least 0.25 per cent of Canada's quota is held by the IMF in a Canadian dollar cash deposit at the Bank of Canada. The Fund's remaining Canadian dollar holdings are in the form of non-interest-bearing demand notes, also kept by the Bank of Canada.

² This is the amount Canada is entitled to draw on demand from the IMF for balance of payments purposes. Our reserve position in the Fund is the result of the portion of our quota subscription made available to the Fund over time in reserve currencies, the use of the Canadian dollar in Fund financial transactions with other members, and loans to the IMF under borrowing arrangements such as the General Arrangements to Borrow and New Arrangements to Borrow. As the name suggests, our reserve position in the Fund is a part of Canada's official foreign exchange reserves.

At the end of the year, Canada's holdings of SDRs amounted to SDR 779.5 million, or 100.0 per cent of our cumulative allocation of SDRs. In 1998, Canada held SDRs in an amount greater than our allocation, and so earned net interest income of SDR 1.1 million.¹ This income, and the net income from our net creditor position with the Fund noted above, are paid into the Government of Canada's Exchange Fund Account, adding to our foreign exchange reserves.

Last year, in line with earlier commitments, Canada made further contributions to the IMF's Enhanced Structural Adjustment Facility (ESAF). The facility provides financial support on concessional terms to low-income countries facing protracted balance of payments problems. Canada's commitment to the ESAF is a loan of SDR 500 million and a grant of approximately SDR 190 million. At the end of 1998, loan payments under these arrangements totalled SDR 399.5 million and subsidy contributions equalled SDR 104.4 million.

Canada is also a participant in the General Arrangements to Borrow (GAB), the credit arrangement established by the G-10 industrial countries to supplement the Fund's regular resources in the event of financial crises. Canada's GAB commitment is the equivalent of SDR 892.5 million. This line credit was used for the first time in a number of years to finance the SDR 6.3-billion augmentation of Russia's extended arrangement. The IMF made only one call of SDR 1.4 billion under the activation, of which Canada's share was SDR 75.8 million. As noted above, Canada is also a participant in the

¹ When a member's holdings of SDRs is greater (lesser) than its cumulative allocation, that member (the Fund) receives interest on the difference.

New Arrangements to Borrow (NAB), and in December 1998 lent the IMF SDR 128.7 million under the first call in support of Brazil's Stand-by Arrangement. Both the GAB and NAB loans were repaid by the IMF to Canada in March 1999.

Challenges Ahead

A key challenge for the Fund is to ensure that its mission meets the needs of an increasingly integrated global economic system. In addition, the Fund must continue to provide support to members with balance of payments problems, including the heavily indebted poor countries (HIPC's). To meet these challenges:

- The IMF should examine how it can reorient its surveillance activities to better foresee, prevent and respond to liquidity and confidence crises of the type that have recently affected Asia.
- The IMF must continue to make an effective contribution to a comprehensive debt strategy by ensuring that it has sufficient resources to continue to finance the ESAF for the benefit of the HIPC's. The IMF must continue its efforts to establish a "self-sustained" ESAF to ensure low-interest loans with extended maturity periods are available for low-income countries.
- The IMF must devote close attention to the issue of how to achieve appropriate sequencing of capital account liberalization, with special emphasis on the priority of strengthening financial sectors and ensuring their adequate regulation and supervision.

THE WORLD BANK

Overview

Membership in the World Bank affords Canada an important voice on key development issues in the world's premier multilateral development bank. With 181 members and loans and credits to 85 developing member countries in fiscal year (FY) 1998, the World Bank has a far-reaching impact on global development. It assists members, both developing countries and countries in transition from planned to market economies, by providing concessional assistance and access to world financial markets for development purposes. In addition, it advises on policy issues crucial to improving members' longer-term development and poverty reduction prospects. In its 1998 fiscal year, the World Bank committed loans and credits of about US\$28.6 billion to these countries (see Annex 2). In over fifty years of existence, it has provided more than US\$400 billion in loans to the developing world (see Annex 3).

How the World Bank Group Works

The World Bank Group is made up four complementary but distinct entities: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA) and the International Finance Corporation (IFC).

The IBRD and IDA (together commonly known as the World Bank) both provide funding for investment projects and for adjustment, or economic reform, operations. The IBRD lends funds on commercial terms (slightly above a market interest rate – LIBOR) to the better-off borrowing members, while IDA provides interest-free credits to the poorest borrowers. The IBRD gets its funds primarily from borrowing on international markets, on the basis of its triple-A credit rating, whereas IDA receives grant funding from donors and other sources including World Bank net income (details are provided below). In effect, the IBRD on-lends to borrowing countries at a rate of interest much lower than that which they could secure on their own borrowings.

The IFC supplements the activities of the IBRD and IDA by undertaking investments on commercial terms in productive private sector enterprises. The IFC provides such services as direct private sector loans, equity investments, resource mobilization and technical assistance. MIGA's mandate complements that of the IFC: it promotes private foreign direct investment in developing countries, primarily through the issuance of insurance against non-commercial risk, such as the risk of currency inconvertibility during civil conflict.

Many of the Bank's members continue to face a tremendous challenge in raising the living standards of their populations. The Bank's support has been crucial in transforming a number of countries from dependence towards greater self-reliance. Where countries have established an appropriate enabling environment, private capital can play an important role in helping to finance future growth. The World Bank continues to play an important catalytic role in encouraging the use of private capital for development.

Responding to the Emerging Markets Financial Crisis

International markets remained volatile in 1998 and into 1999, with the East Asian financial crisis spreading to other emerging markets (most notably Russia and Brazil). This emerging markets financial crisis poses a considerable risk to global economic expansion and threatens to undermine global progress in reducing poverty. The World Bank, together with the IMF, has assumed a central role in providing financial and technical assistance to economies affected by the emerging markets financial crisis. The two institutions are playing a particularly important role in helping restore international investor confidence in crisis economies. Distinct from the IMF, the World Bank's participation in the global response to the financial crisis is shaped by its mandate and experience in promoting longer-term sustainable economic development.

After expanding rapidly in the early and mid-1990s, private capital flows to developing countries have contracted sharply since the onset of the financial crisis. This contraction, coupled with a continuing decline in transfers from bilateral Official Development Assistance agencies, increased demand for World Bank financing considerably in FY 1998 (July 1, 1997-June 30, 1998). Demand has continued to remain strong.

Demand has been particularly high for adjustment lending,² which has been the principal vehicle for the delivery of Bank assistance to crisis economies. Adjustment lending as a share of total Bank (IDA and IBRD) lending operations increased in FY 1998 to 39 per cent, compared to 26.5 per cent in FY 1997 and 21 per cent in FY 1996. In FY 1998, for the IBRD alone, adjustment lending amounted to 47 per cent of the institution's total lending operations. By agreement of shareholders, IBRD adjustment lending is normally subject to a notional ceiling equivalent to 25 per cent of total lending. Executive Directors of the Board of the Bank agreed in FY 1998, given the Bank's critical role in the international effort to address the financial crisis and the link between longer-term development and the restoration of growth that adjustment lending supports, that this lending guideline could be exceeded in FY 1998. It may be exceeded in FY 1999 as well.

² An "adjustment loan" is a rapidly disbursing lending instrument used by the Bank to provide support for a government's structural reform program. The bulk of the Bank's total lending operations, however, are in the form of "investment loans," which are disbursed over the medium- to long-term implementation periods of specific development projects.

In FY 1998, total Bank lending commitments rose an unprecedented 67 per cent over the 1997 total to US\$28.5 billion. The bulk of this lending (US\$16 billion) was to East Asian crisis economies; additional lending has also been provided to Russia, Brazil and Argentina. In the case of one recipient, Korea, the Bank had not been an active lender since 1988.

Lessons of the Crisis

Three important lessons have been learned by the Bank from the emerging markets financial crisis. First, good governance, including strong supervisory institutions, is key to economic stability. Second, financial crises inevitably have social consequences and, in particular, often markedly worsen the plight of the poor. And third, multilateral and bilateral agencies must better co-ordinate their responses. The Bank has incorporated these lessons into its operations and this is reflected in the four principal orientations of its crisis support programs: (a) addressing the social consequences of the crisis (social safety net and labour market issues); (b) promoting better governance; (c) targeting assistance to financial and corporate restructuring and providing support for structural reforms which are aimed at restoring sustainable growth; and (d) building partnerships.

(a) Helping to Protect the Poor

The speed and depth with which the emerging markets financial crisis has affected the poor has taken governments and multilateral institutions by surprise. Affected countries have been hit by falling incomes, rising absolute poverty and malnutrition, declining public services, threats to educational and health status, increasing vulnerabilities among women and children, and growing crime and violence. Indonesia has been affected most acutely; the IMF is projecting that as many as 21.5 million people, amounting to about 11 per cent of the population, could fall below the poverty line (living on less than US\$2 a day). It is estimated that the number of people below the poverty line could increase by as many as 6.7 million (12 per cent of the population) in Thailand, and by as many as 5.4 million (12 per cent of the population) in Korea. In the case of Brazil a 3-per-cent fall in GDP would push an estimated 7.5 million Brazilians below the poverty line.

In response, the Bank has made incorporating support for the social sector a key element of its economic adjustment and restructuring assistance in crisis economies. The Bank's work includes assistance to governments in designing and financing social investment funds and in strengthening social security systems for the elderly and unemployed.

In FY 1998, the Bank committed roughly US\$800 million in direct support of social sector projects in the East Asia and Pacific region and it plans to triple this level over the next three years. Recent structural adjustment loans to Thailand, Korea, Indonesia and Malaysia have all incorporated components aimed at protecting public spending on health and education (both of which have a strong pro-poor impact). The Bank estimates that the bulk of its adjustment lending in East Asia in FY 1998 could be broadly characterized as "poverty-focused."

More broadly, in FY 1998, 40 per cent of the Bank's total investment (project) lending was targeted directly at the poor (compared to 29 per cent in FY 1997). In addition to its social sector project lending, the Bank's adjustment lending also provides direct budgetary support to the government programs that have a strong social component. The World Bank also supports social sector activities through its policy discussions and consultations with governments, through its provision of technical assistance, economic surveys and public expenditure reviews, and through its participation in partnership programs.

Impact of the Crisis on the Poor/Reaction of the World Bank

The World Bank's immediate focus in crisis economies is to ensure that low-income and poor households have adequate food, security and access to critical needs such as medicine and hospital supplies. To this end, Bank interventions support public spending which benefits the poor and helps improve safety net arrangements.

- In Indonesia, assistance is given to introduce subsidies for essential goods as well as scholarship funds for 2.6 million needy junior secondary school students.
- In Thailand, the Bank is working closely with the Thai government to identify what public expenditures that may directly assist the poor can be protected or expanded. In addition, a US\$300-million Bank loan will fund job creation for the poor and the unemployed through public works programs, which are expected to create roughly one million months of jobs.
- In Korea, substantial assistance was given for pension reforms. Bank lending has helped the government increase its budgetary allocations for social safety net programs (social safety net outlays included in 1998 amounted to 2.5 per cent of GDP, a ten-fold increase over 1997).
- In Brazil, a US\$252-million loan will help the government provide assistance to children in poor families, retired and disabled poor, as well as families needing access to free or low-cost health services. A separate US\$757 million loan is targeted at supporting the reform of the national pension system.

(b) Promoting Good Governance/Combating Corruption

With its adjustment and technical assistance loans, the Bank is supporting various civil service reforms that are targeted towards improving governance by enhancing public accountability and transparency of government agencies. The Bank also provides governments with advice on the drafting of governance-related laws, including legislation to combat corruption. This work is being supported by extensive Bank analysis of budgetary processes and institutional effectiveness. In Indonesia, the Bank is working with the government and representatives of civil society to develop a comprehensive public sector anti-corruption strategy.

(c) Supporting Reform and Restructuring

With respect to the corporate sector, the Bank is assisting governments in developing restructuring and bankruptcy frameworks and stronger competition policy, as well as supporting corporate governance and legal reforms.

A strong financial sector is key to recovery and in its financial sector work, the Bank increased its professional staff complement by some 50 per cent over the past 18 months, with a number of financial experts having been brought in from the private sector.

The Toronto Centre

Recognizing the need to strengthen financial sector regulation and supervision in crisis economies, in 1997 the Government of Canada and the World Bank announced the creation of the Toronto International Leadership Centre for Financial Sector Supervision. The Toronto Centre provides experience-based training for senior financial supervisors and regulators in emerging markets. It focuses on the leadership dimension of the supervisory function, offering pragmatic programs based on the premise that experience is the best teacher. Canadian government funding for the Toronto Centre is provided by the Canadian International Development Agency. The Schulich School of Business at York University is hosting the institution.

The Toronto Centre successfully completed two courses on banking supervision during 1998; there was an excellent roster of candidates for these sessions. The candidates have been at senior levels, generally reporting to the Governor or Deputy Governor. The Toronto Centre will branch out in the coming year, providing one securities course along with three courses on banking supervision.

The World Bank has recently set up a Web site for the Toronto Centre at <http://www.worldbank.org/html/fpd/tc>.

The Bank is providing extensive support to establish banking restructuring agencies and implement measures to deal with non-performing banking portfolios, insolvent financial institutions and asset disposition. The Bank is also helping to establish sound legal, accounting and regulatory frameworks, promote improved governance in financial institutions and strengthen financial supervisory institutions.

(d) Improving Co-ordination With Other Agencies

In 1998, at the request of shareholding governments, the Bank and the IMF undertook a frank assessment of their joint work and developed substantive measures to improve mutual co-operation. These measures, which are now being implemented, include a better delineation of responsibilities between the institutions and the establishment of a senior management Liaison Committee charged with enhancing joint Bank/Fund work with relevant international supervisory agencies. Through these closer links, the IMF has been able to benefit from the experience of the Bank in assessing the longer-term development impact of its own structural adjustment lending. Collaboration between the Bank and Fund has been particularly close in critical financial sector work (see the Joint Issues section.)

The Bank and the Fund are also working closely with governments to develop and implement a debt relief program for good-performing HIPC's. This initiative is described in detail in the Joint Issues section.

Over the last year, the World Bank also has worked to deepen its partnerships with regional development banks and other multilateral agencies (including the World Trade Organization and the United Nations Conference on Trade and Development) as well as bilateral agencies. A tripartite consultation mechanism involving the Bank, the IMF and the Asian Development Bank has been established to co-ordinate programs in Asian crisis economies.

Impact of the Emerging Market Crisis on the World Bank

The emerging markets financial crisis and the concomitant increased demands on the World Bank have increased stress on the Bank's own staff and administrative resources. As well, they have increased the Bank's risk exposure through the rapid growth of crisis countries' share in its overall loan portfolio.

The large growth in World Bank exposure has increased the Bank's reserve requirements. On July 30, 1998, the Bank added US\$750 million to IBRD reserves from its FY 1998 net income of US\$1.2 billion.³ In July 1998, in a move to strengthen net income, the Bank increased charges on its non-concessional loans. The interest rate charged borrowers was increased by 25 basis points (one quarter of 1 per cent) and a new front-end fee of 100 basis points (1 per cent of the loan amount) was introduced. For FY 1999, the Bank also reduced to 5 basis points the standard 25-basis-point interest rate reduction (waiver) it normally grants on loans which are paid on schedule.

³ The World Bank raises net income through revenues on its non-concessional (IBRD) lending operations as well as through income on its equity investments. Net income finances allocations to World Bank reserves, as well as to various World Bank programs, including the Initiative for Heavily Indebted Poor Countries, the Development Grant Facility and the Bank's contribution to IDA is capital replenishments.

In order to more effectively balance the need for the Bank to be active in crisis economies with the need to prudentially manage the risks associated with its growing exposure to these economies, in November 1998 the Executive Board approved a new financing instrument. Known as the Special Structural Adjustment Loan (SSAL), this instrument will be used in rare cases and in concert with the IMF, other international financial institutions and governments, to provide exceptional adjustment lending to middle-income developing countries in financial crisis or pre-crisis situations. The Executive Board also approved the introduction of the Programmatic Structural Adjustment Loan (PSAL), which is designed to give a multi-year planning component to traditional structural adjustment loans.

Programmatic and Special Structural Adjustment Loans

As part of its response to the increasing demands from the emerging markets financial crisis, in October 1998, the World Bank introduced two new lending facilities: the Programmatic Structural Adjustment Loan (PSAL) and the Special Structural Adjustment Loan (SSAL).

- **PSALs** introduce a multi-year planning dimension to structural adjustment programs and include longer-term support for public budgets during periods of sustained policy and institutional reform. By so doing, this instrument gives greater predictability to Bank support and monitoring.
- The **SSAL** is a much more ambitious instrument and was designed specifically for middle-income countries affected by financial crises. The SSAL is a fast-disbursing financial support vehicle which would be used in the early stages of a Bank-Fund crisis support program. An SSAL is delivered as part of a concerted international support package for a given country involving the IMF, regional development banks, governments and the private sector.
- Given the nature of crisis support, lending under an SSAL would exceed the country amount foreseen in Bank Country Assistance Strategies. At eight years, the SSAL also has a shorter repayment period than a regular Structural Adjustment Loan (SAL). Moreover, given the higher risk of lending in a crisis situation, SSAL loan pricing is roughly 3.5 percentage points above that of a regular normal SAL. Since its introduction, US\$4 billion in SSAL loans have been approved for two countries (Argentina and Brazil).

In February 1999, in response to client demands for financing products which would involve less interest rate risk, the Bank approved, effective September 1, 1999, a new “fixed spread” lending rate. Under this mechanism, the Bank will fix the interest rate spread above Bank borrowing costs that is charged to IBRD borrowers for the duration of loan amortizations. In addition, the Bank will be offering clients advice on interest rate and currency hedging.

The Bank is continuing to search for innovative means of increasing global financing available for middle-income countries threatened by the emerging markets financial crisis. In March 1999, the Bank elaborated a new proposal for a guarantee instrument to provide financial support to middle-income developing countries. This proposal will likely be considered by the Executive Board in the spring of 1999. If approved, this "policy-based guarantee" proposal would see the expansion of the IBRD's guarantee program beyond project finance to include adjustment operations. The Bank, in partnership with other multilateral organizations or donor governments, could then in the future provide partial guarantees on commercial loans to or partial guarantees of sovereign bond issues by middle-income country governments which are pursuing structural adjustment programs. The proposed guarantee program would be narrowly targeted at middle-income countries with good macroeconomic track records. The object of the proposal is to increase the amount of private sector financing available to these governments by using a partial World Bank guarantee as leverage.

Other World Bank Lending Operations in FY 1998

In 1998, the Bank also provided substantial support to East African and Latin American countries whose economies have been damaged by the effects of El Niño on weather patterns. This emergency response included a quick reaction in the fall of 1998 to support countries in Central America devastated by the Hurricane Mitch. Canada pledged \$8 million to the special Central America Emergency Trust Fund housed at the World Bank to assist countries severely affected by Hurricane Mitch, especially Honduras and Nicaragua, both HIPC's.

While lending by region increased most dramatically in Asia-Pacific countries, each of the Bank's geographic departments increased the volume of their lending operations in FY 1998. Perhaps most notable was the 57-per-cent increase in operations in Africa, which reflected both the effects of the conclusion of the internal restructuring of the Bank's African department and, more significantly, improvements in the economic climate in several African countries.

Sanctions on Operations in India/Pakistan: In response to a request from G-8 governments following the testing of nuclear weapons by India and Pakistan in May 1998, the World Bank has limited its operations in both countries to projects which support basic human needs (health, education, etc.).

Comprehensive Development Framework

The increased demands on the Bank resulting from the emerging market crisis has focused the attention of Bank management and shareholders alike on the nature of the Bank's development assistance mandate. President James D. Wolfensohn has stressed the need for the Bank to maintain the institution's focus on longer-term development issues and at the Bank's

Annual Meeting in October 1998, he launched his idea for a new framework, referred to as the Comprehensive Development Framework (CDF), for assessing and implementing development assistance.

Under the CDF proposal, President Wolfensohn has called on governments and other development actors to improve their partnerships and to take a longer- term, holistic approach to development. The CDF will provide a transparent, overarching framework to help guide bilateral assistance providers, developing country governments, and private and civil society actors in their development work. The CDF includes a complex matrix that matches development issues with the responsibilities of different development agents. This matrix has been designed to reflect the interdependence of macroeconomic and financial factors with structural, social, environmental, governance and human concerns.

Recognizing that in the past a lack of sufficient local ownership of programs has undermined development effectiveness, the CDF stresses the importance of transferring responsibility for the goals, phasing, and timing of development programs to local governments and community organizations. The Bank aims to introduce the CDF on a trial basis over the next year in about twelve different countries. The first such test case will be in Bolivia.

Benefits of Membership

- Canada's voting share of about 3 per cent in the World Bank gives us a seat on the Bank's 24-member Executive Board and on the joint IMF/World Bank Development Committee. Canada has the opportunity, both at the Executive Board and in discussions with Bank staff, to provide direct input into the formulation of Bank policies and operational decisions. Canada and other shareholders provide the Bank with guidance to improve developing countries' economic, social and environmental performance.
- Participation in the Bank affords an opportunity to influence international development policy issues of concern to Canadians. Input into the Bank's annual research report – the *World Development Report* (WDR) – provides an important vehicle by which Canada can influence the global debate on poverty, labour, health and the environment. The 1998 WDR focused on the role of knowledge in advancing well-being. Considerable groundwork for this study was laid at the Global Knowledge 97 conference hosted in Toronto in 1997 by the Canadian government and the World Bank. The Global Knowledge Partnership grew out of this conference and draws together public and private sector actors as well as non-governmental organizations (NGOs) committed to promoting broader access to knowledge that can promote sustainable development. The upcoming WDR (2000) will focus on poverty.
- Canada benefits from the Bank's leadership role in bringing together donors to respond quickly to emergency situations in countries in post-conflict situations. The World Bank also provides Canada with a forum for working together with other donors to establish a common position to deal with

the emerging markets financial crisis. For example, Canada and other donors have worked closely with the World Bank and the IMF to assemble a multilateral financial assistance package for Brazil. In the context of the Middle East peace process, Canada has been closely involved with the Bank's efforts to mobilize resources for the West Bank and Gaza. Through such co-operation, Canada's influence can be leveraged beyond what could be achieved through its bilateral programs.

- Canada benefits from the role the World Bank plays in bringing together donors for Consultative Groups (CGs) to provide assistance to specific countries in need. Through CGs, donor countries are able to better co-ordinate their policy advice and operational programs to provide more coherent advice to borrowers and to maximize the impact of their operations. Last year, the World Bank participated in 30 separate CGs and donor groups. CIDA and other donors also benefit from the Bank's co-ordination of major international programs, such as the Special Program of Assistance for Africa (SPA) and the Global Environment Facility (GEP).
- The Canadian government draws heavily on the Bank's research and policy work to enrich its understanding of international development. A wide variety of CIDA programs also benefit significantly from direct access to Bank staff and expertise.
- Finally, Canadian companies and individuals enjoy substantial procurement benefits from our membership in the World Bank Group. Disbursements in FY 1998 for Canadian goods and services totalled US\$233 million, bringing total cumulative disbursements to more than US\$3.6 billion.

IDA 12 Replenishment

While much of the recent focus of the international community has been on those countries most directly affected by the emerging market financial crisis, we cannot forget the plight of the poorest countries. Already in a difficult situation, many of these countries have been further affected by the fallout of the crisis on commodity prices. For example, some 75 per cent of Sub-Saharan African exports are in primary commodities. This increasing globalization of the world economic system has underlined the importance of raising standards of living and supporting longer-term sustainable growth in all countries, including the poorest ones.

The International Development Association's (IDA) mission is to reduce poverty and improve the quality of life in the poorest countries of the world. IDA does this by supporting projects that improve countries' living standards and by promoting equitable access to the benefits of economic development. IDA focuses on results – to get the biggest development return from scarce aid resources; sustainability – to achieve enduring development impact within an environmentally sustainable framework; and equity – to remove barriers and open up opportunities for the disadvantaged.

IDA Funding

The International Development Association (IDA) is the World Bank Group's concessional lending window. It provides long-term loans at zero interest to the poorest of the developing countries. IDA is funded largely by contributions from the governments of the richer member countries and is replenished every three years. Agreed to in November 1998, the Twelfth Replenishment will finance projects over the three years starting July 1, 1999. Funding for the Twelfth Replenishment will allow IDA to lend about \$20.5 billion, of which donors' contributions will provide just over half. The remainder is provided by loan reflows, investment income, IBRD net income transfers and other income sources.

Canada committed \$607 million (over a three-year period beginning in 1999) to maintain its 3.75 per cent IDA share in the replenishment exercise.

IDA Priorities

Poverty reduction is the cornerstone of IDA's development efforts. Sound macroeconomic and structural policies, institutional reforms and good governance are essential to achieve a sustainable decline in poverty. In recent years, IDA has devoted significant resources to improving the quality and effectiveness of its assistance efforts. The participation of government, non-governmental organizations (NGOs) and civil society is critical. The degree of borrower ownership and the level of participation by NGOs and civil society have increased substantially through the course of IDA replenishments.

IDA focuses its work on areas shown to have a significant development impact. For example, work is underway to improve IDA's track record in assisting borrowing countries to formulate and implement poverty reduction strategies that adequately incorporate gender. As well, in recognition of the fact that weak governance, including corruption, can constrain development, IDA has incorporated governance considerations in its work (see below).

Lending for social services has been a focal point of the World Bank's, and particularly IDA's, poverty reduction efforts in recent years. IDA places particular emphasis on lending targeted directly to the poor under the Program of Targeted Interventions (PTI). Over the 1996-1998 period, PTI lending has consistently accounted for more than 50 per cent of IDA's investment lending.

Table 3

IDA Lending for the Program of Targeted Interventions
Fiscal Years 1996-1998

	1996	1997	1998
IDA PTI lending (in US\$ millions)	3,246	1,874	3,267
As % of IDA investment lending	63	53	54
As % of all IDA lending	47	41	44
Number of IDA PTI projects	51	37	59

IDA12 resources will focus on four key areas:

- **Investing in people** – Investments in basic social services, including primary education and health care, clean water and sanitation, nutrition and social protection. This funding will address such needs as ensuring that children who are forced to work to help support their families do not have to sacrifice opportunities to learn. Social sector lending will remain around 40 per cent of investment lending during IDA12.
- **Promoting broad-based growth** – Development experience shows clearly that sustainable, broad-based economic growth is essential for poverty reduction. In particular, IDA will support policy changes and projects that encourage the role and growth of the private sector, including local small businesses, micro-enterprises and small holding farms.
- **Supporting good governance** – Good governance is critical to sustainable, broad-based economic development and improvements in human well-being. As discussed below, IDA has strengthened its analytical framework to assess the quality of overall policy performance in recipient countries, including governance factors, which will be applied in the allocation of IDA12 resources.
- **Protecting the environment** – IDA will support strategies that promote environmentally sustainable development since the effects of poverty and environmental damage are often mutually reinforcing.

IDA also recognizes that a special effort is needed in Africa – a region that continues to present a particularly difficult development challenge. Many African countries are now pursuing sound policies and experiencing greatly improved growth rates, opening a window of opportunity to improve the lives of their poorest citizens. Yet investment levels in these countries are too low to sustain this growth. Sustaining and building on their efforts will require substantial support from the international community, including both the private and public sectors. To support African countries that are committed to poverty reduction, economic reform and sustainable, broad-based growth, IDA intends to increase Africa's share of IDA resources with aim of reaching 50 per cent of IDA12 resources, as long as the performance of individual countries warrants it.

However, the reality is that most of the world's poor live in Asia, and that in many parts of Asia social indicators are worse than those found in Africa. In response, IDA will also focus on these countries, with particular emphasis on social and environmental programs for the “blend” borrowers – those countries that have limited access to non-concessional funds but differ widely in their economic development prospects.

How IDA Resources Are Allocated

IDA resources are scarce and must be allocated where they are most likely to promote sustainable broad-based growth – where countries are implementing sound policies. Country performance assessments have been carried out annually since 1980 and have increasingly served as the basis for IDA resource allocation. In the IDA12 replenishment, the criteria that are used in these assessments were significantly refined.

Two features of the modified criteria are particularly noteworthy: those criteria concerning policies to reduce inequalities and those concerning governance and public sector performance. The first is aimed at capturing the role of policies and institutions in ensuring that the benefits of growth are widespread. The latter reflects the consensus of IDA12 donors that good governance affects the growth and poverty reduction prospects of a country and is therefore central to IDA's objectives. Accountability, transparency, the rule of law and participation represent four major pillars of governance that are critical to the development process and the effective use of IDA resources.

Canada's Priorities at the World Bank

Developmental Priorities

Despite considerable progress over the last two decades in improving living standards worldwide, over 3 billion people remain in dire poverty. The emerging markets financial crisis has eroded some of the progress achieved, with hundreds of millions of people thrown back into poverty over the last two years.

Canada has long been a key player in international efforts to assist the poorest and strongly supports **poverty reduction** as the overarching objective of the World Bank. The Bank has taken an increasingly sophisticated (or “integrated”) view of poverty reduction in recent years; in doing so, it has recognized that poverty reduction cannot be addressed in isolation. Private sector development, good governance and environmentally sustainable policies are just a few of the factors that need to be considered in designing strategies to help improve the living standards of the poor in member countries. Greater emphasis has also been placed on ensuring that social safety nets are in place to protect the poor during periods of economic adjustment.

Canada's Voting Record (April 1998-March 1999)

World Bank Executive Board decisions are usually taken on a consensus basis, without recourse to a formal vote. However, on occasion, individual Executive Directors have been unable to join the Board consensus for various reasons. In 1998 and early 1999, the Canadian Executive Director did not join the Board consensus on four occasions.

- In April 1998, Canada abstained on the 4.6-per-cent salary increase for Bank staff, given that this represented a significant increase in real terms and, in comparison, Canadian public service salaries were not growing.
- In January 1999, Canada abstained on the US\$350-million single-tranched Structural Adjustment Loan for Pakistan, given a preference for disbursement of this facility in two separate tranches in order to make more effective the loan's economic policy conditionality.
- In February 1999, Canada abstained on a US\$210-million IBRD energy sector loan for the Indian state of Andhra Pradesh and opposed a US\$30-million IFC loan for and US\$5-million investment in an Indian coal mining project, as these operations were seen as inconsistent with multilateral sanctions on India which limit Bank financing to projects which support basic human needs.

Poverty assessments continued to provide valuable support for the Bank's poverty reduction efforts last year. The Bank has completed poverty assessments in 83 of 105 countries, covering approximately 90 per cent of the world's poor. However, the quality of poverty data is uneven and, to address this problem and to help improve the effectiveness of its poverty reduction work, in 1998 the World Bank shifted the direction of its poverty work in two ways:

- by changing the focus of Country Assistance Strategies, which set out the Bank's key operational priorities in individual countries, from an analysis of poverty to the formulation of strategies to reducing poverty; and
- by emphasizing the quality of the impacts of Bank projects on the poor, rather than focusing strictly on the quantity and value of poverty projects.

The Bank has also increased the prominence of social sector issues in macroeconomic stabilization programs. Good macroeconomic policy is key to boosting growth and thereby reducing poverty.

To further ensure that poverty reduction remains at the heart of the Bank's operations, the Poverty Reduction and Economic Management Network (PREM) was established as a Bank functional department in 1997. PREM, which is charged with developing an overall approach to poverty evaluation, advises Bank country teams on the poverty reduction impacts of projects. PREM is focusing much of its effort on three target countries: Bolivia, Nepal and Vietnam.

World Bank lending in almost all sectors includes activities that specifically benefit women. The Bank strengthened its gender analysis database in 1998 and increased training for country officials on gender issues. The **gender** components of all Bank projects approved in FY 1998 totalled US\$2.45 billion and were focused particularly on countries with inadequate gender-disaggregated data.

Private Sector Development: Canada has encouraged the increasingly co-ordinated approach to private sector development that has developed within the Bank Group over the past two years. It is now recognized that the private sector has an important role to play in addressing virtually all development challenges, from protecting the environment to assisting in privatization in transition economies. In response, business innovation programs are now under way in all of the Bank's regional offices.

In 1998, the Bank launched its new "Business Partners for Development" program with private sector partners. The aim is to enable private companies to set up in developing countries locally-based, development-oriented projects in four thematic areas: education, natural resources, water/sanitation and youth development. Funding for projects under this program is provided by the private sector, the Bank and bilateral Official Development Assistance agencies. This program has been used by natural resource companies active in the Angolan mining sector, together with the local government and NGOs, to support social sector community development projects.

The Bank is increasingly using **guarantees** to expand developing countries' access to international and domestic capital markets. Complementing products offered by the IFC and MIGA, the Bank provides partial risk and partial credit guarantees for private investment in priority projects. The economic downturn in emerging markets, however, delayed some of the Bank's guarantee operations in 1998. One of the guarantee projects approved last year, for Morocco's first independent power producer, was selected one of the fifteen best project finance deals of the year by *Project Finance* magazine. In addition to guarantees, in 1998 the Bank also provided advisory services on enhancing creditworthiness and on better management of contingent liabilities to Brazil, China, Turkey, Colombia and the Philippines.

The Bank approved two new applications of the guarantee program in IDA countries in 1998 to cover private lender country risks for which there is otherwise insufficient insurance cover: (a) partial risk guarantees to private lenders to projects which generate foreign exchange; and (b) a pilot US\$300-million program targeted at IDA countries on a policy reform path. Under (a), the guarantee (enclave) is provided by the IBRD and under (b) the guarantee is provided by the IDA.

Another example of the private sector's role in development is the growing impact of **micro-credit operations** (relatively small loans made to the poor by grassroots organizations such as the Grameen Bank in Bangladesh).

With a small investment, these organizations have been successful in improving the living conditions of the poor, particularly women, in developing countries. Evidence from these operations is compelling; it shows that the poor can be very good entrepreneurs as well as very good credit risks.

The Consultative Group on the Poorest (CGAP), which includes the World Bank, Canada and 23 other multilateral and bilateral donors, was established in 1995 to support the development and expansion of sustainable institutions which provide micro-finance services to the poor. CGAP has now entered its second stage of operations.

During its initial phase (1995-98), CGAP provided US\$26 million in grants to support micro-finance operations, as well as technical assistance for financial management training and the development of "best practices policies" for micro-finance providers. CGAP member/donors are responsible for the maintenance of a core fund to support micro-finance programs in the developing world. The Minister for International Co-operation, the Honourable Diane Marleau, approved a \$1.5-million three-year agreement between CIDA and CGAP which starts in 1999.

Micro-credit: The Consultative Group to Assist the Poorest (CGAP)

Up until the end of FY 1998, CGAP had funded 58 programs including the Women's World Bank Fund, the Vietnam Bank for the Poor and the Rural Finance Facility in South Africa. Over this period, CGAP also funded a number of capacity building initiatives, such as the Pilot Capacity Building Initiative in Africa and the global Micro-finance Network.

For CGAP's second phase, donors have adopted the following strategies:

- to support micro-finance institutional development through the creation of tools and the delivery of capacity-building activities;
- to support changes in the practices of CGAP members, especially as they relate to the management of micro-finance portfolios;
- to increase the understanding of the impact of micro-finance on poverty reduction;
- to improve the legal and regulatory framework for micro-finance; and
- to facilitate the commercialization of the micro-finance sector.

Through this work, CGAP seeks to strengthen the ability of micro-finance organizations with a proven track record and to provide assistance to the poor. The World Bank has contributed US\$30 million to the first phase of the facility and has tentatively agreed to provide a further US\$20 million for the second phase. CGAP bilateral donors have also agreed to provide additional contributions.

Good Governance and Corruption: The Bank continues to make strides in addressing the issue of governance. As mentioned above, governance issues feature prominently in Bank-supported adjustment programs. This focus is not limited to crisis economies. In addition to encouraging more effective management of borrowing member public expenditures and more participatory and open approaches in decision-making, the Bank incorporates anti-corruption measures into its own procedures. The Bank has amended its procurement guidelines to provide conditions for disqualifying bidders, temporarily or permanently, from future Bank-financed projects if it finds evidence of fraud or corruption.

Canada has also been particularly concerned about unproductive expenditures, particularly excessive military expenditures. Canada has spoken strongly at the Bank to highlight the need for the institution to be tough on countries which increase defence spending while receiving international assistance. At a time of scarce donor resources, the Bank's clients can ill afford to waste resources on unproductive spending. Recognizing this problem, the Bank has issued a note "Bank Work on Military Expenditures" for staff guidance. Among other things, the Bank is requesting better information from borrowers on military-related aggregate expenditures to aid in its public expenditure reviews. It is also encouraging to see that a number of countries are seeking Bank assistance in the conversion of military-run industries (China, the Czech Republic and Hungary), while others, including Angola, Ethiopia and Uganda, have asked for help with demobilization and demilitarization.

During the recent IDA negotiations, donors underlined that lending decisions should increasingly be based on a borrowing government's efforts to reduce unproductive expenditures.

The Bank's Economic Development Institute (EDI) is an important delivery instrument for training on governance and anti-corruption issues.⁴ It uses its public sector reform program to build consensus in client countries to work against corrupt practices. At the request of the Bolivian government and in partnership with Transparency International, EDI has developed a national anti-corruption strategy which focuses heavily on the drug trade and legal reform. In addition to Transparency International, EDI has developed a close relationship in its governance training work with the Parliamentary Centre of Canada.

Environmentally Sustainable Development: The Canadian government, alongside Canadian NGOs, has long been a vocal advocate of the need for the Bank to better integrate environmental considerations into its operations and is a keen supporter of the Bank's recent efforts. The establishment of the Environmental Sustainable Development vice-presidency in 1993 has been instrumental in supporting this objective. In FY 1998, the Bank had approved

⁴ In March 1999, to improve the efficiency of the Bank's education and training programs, EDI was merged with the Bank's Learning and Leadership Centre, with the new institute working under the name of World Bank Institute (WBI).

US\$902 million of loans in support of 18 stand-alone environmental projects. In addition, 10 agricultural, water and urban development projects with a value of US\$590 million which have a strong environmental focus were also approved. Over and above the Bank's portfolio of environmental projects, the Bank requires that every project it supports be environmentally sustainable. Environmental assessments, which are discussed with the public, are designed to test the environmental credentials of each Bank project.

Cumulative active environmental projects since 1986 (including investments to reduce pollution, protect ecosystems and build environmental management capacity) levelled off in FY 1998 at US\$10.9 billion, after several years of sharp increases. This levelling off reflected the completion of several earlier environmental projects; this trend is expected to continue.

In 1998 the Bank developed a set of social and environmental "safeguard policies" designed to protect people and natural resources from any adverse impacts of development projects. In October 1998, the Bank approved a strategy designed to increase awareness of the environmental issues in the design and implementation of the Bank's energy projects.

Of particular note is the increasing work undertaken by the Bank in co-operation with other shareholders in the area of **climate change**. It is now recognized that collective global action is required to find solutions to this problem, and the Bank has stepped up its efforts to provide assistance to its borrowing member countries in helping to reduce "greenhouse gases." By the end of FY 1998, the Bank's Ozone Projects Trust Fund (established under the Multilateral Fund of the Montreal Protocol or MFMP) had approved a cumulative total of US\$264 million for 36 projects and 379 sub-projects for climate change related activities. Of this amount, US\$42 million was approved in FY 1998 and included projects that will phase out 18,000 tons of ozone-depleting substances. This brings the cumulative phase-out accomplished with MFMP support through the Bank to over 30,000 tons (or 15 per cent of chlorofluorocarbons (CFCs) consumed in all developing countries in 1994).

The Bank has also been active in developing a commercial framework for carbon emissions trading under the Conference of the Parties on Climate Change (COP) process. The Bank aims to launch a Prototype Carbon Fund (PCF) by the fall of 1999. The PCF would be the world's first commercial carbon emissions trading instrument.

In addition, the Bank continued with its traditional work as a Global Environment Facility (GEF) implementing agency. In this role, the Bank assists countries in identifying emissions abatement opportunities that are cost-effective, focusing in particular on renewable energy and energy efficiency. By the end of FY 1998, the World Bank had approved 18 GEF projects representing a total of US\$939 million in GEF resources.

Canadian Company Receives GEF Financing

Econoler International, a consortium of Dessau Soprin and Hydro Québec International, received a loan from the GEF small and medium enterprises program. The GEF financing will facilitate the financial involvement in the creation of Energy Service Companies (ESCOs) in four countries in the Maghreb area.

In January 1999, Econoler International finalized the creation of a local ESCO in Tunisia which will be 49-per-cent owned by local partners.

Transparency and Accountability

Transparency and accountability are fundamental to ensuring the longer-term sustainability of the Bank Group's operations. Canada has been a major proponent of increased openness at the Bank. The Bank has responded to concerns from shareholders by making public a growing number of documents on operations, both from the IBRD/IDA and from the IFC.

Transparency also requires **better consultation with beneficiaries**. Canada and other donors have pushed the Bank and borrowing countries to find ways to improve consultations with local peoples in beneficiary countries, not only in the design and implementation of projects, but also in the preparation of key policy documents such as Country Assistance Strategies. To ensure that the Bank is accountable to its clients, Canada has been one of the major supporters of the work of the **Inspection Panel**. The World Bank was the first multilateral organization to establish an independent panel to consider outside complaints. Any group that may be affected by a Bank-supported project has the right to request that the Panel investigate whether the Bank has abided by its policies and procedures. Since its inception in 1994, the Panel has received 12 formal requests for inspections. In FY 1998, it recommended investigation of all three formal requests.

In 1998 an Inspection Panel Working Group (composed of Canadian, Swiss, Dutch, Saudi, Indian and Brazilian Executive Directors) was charged with recommending means of improving the efficiency of the Panel's work. The working group submitted its draft report to the Executive Board in late 1998 and a period of public consultation on its recommendations was launched. The report will likely be formally considered by the Executive Board in April 1999.

How to Access Information from the World Bank

The World Bank's Public Information Centre, which became operational in early 1994, provides a wide range of Bank documents, including:

- project information documents
- project appraisal documents (after approval by the Board of Executive Directors)
- country economic and sector work documents and sectoral policy papers
- the annual report and the *World Development Report*
- the *Monthly Operational Summary* and *International Business Opportunities*
- environmental data sheets, environmental assessments, environmental analyses, and environmental action plans.
- *World Debt Tables*
- operation evaluation department précis

The Bank's InfoShop is located at 1776 G Street N.W., Washington, DC 20433, USA. Phone: (202) 458-5454. E-mail address: pic@worldbank.org. Additional up-to-date information is also available on the Internet (<http://www.worldbank.org/html/pic/PIC.html>).

Getting Results

Assessing Aid Effectiveness: In November 1998, the Bank's Economics Department released a landmark study on the effectiveness of international development assistance which concluded that foreign aid has been highly successful in reducing poverty in countries which practise sound economic management and possess robust government institutions.

The study estimates that by providing an annual increase of US\$10 billion in aid to good performers, an extra 25 million people would be lifted out of poverty. Moreover, every dollar of foreign aid provided to good performers can leverage an additional two dollars of investment as aid increases the confidence of the private sector and helps to build the public services that investors need. Conversely, the study confirmed that foreign assistance delivered to countries with poor governance and economic policy records is not particularly effective; significant foreign assistance has not led to any significant improvement in poverty reduction in these countries. Little evidence was found to substantiate the notion that an inadequate policy and institutional environment can be circumvented by targeting foreign assistance to specific activities (such as health and education).

While the number of developing countries that have improved their economic management has increased significantly in the last few years, the level of foreign assistance provided by the developed world has fallen to its lowest level in over 50 years (in 1997, donor countries provided foreign aid equivalent to only 0.22 per cent of GDP, the lowest level since 1947).

Improving World Bank Effectiveness

Ensuring the efficiency and the effectiveness of the Bank's operations has long been a key objective of Canada. But efficiency and effectiveness entail more than just cutting costs and saving money. They require setting clear priorities and a more efficient and strategic delivery of services. The Bank needs to operate in those areas where its assistance is needed and where it has a clear comparative advantage. It needs to reconsider its role in areas where the private sector or other multilateral development banks may be better placed to provide assistance.

In 1997, the Bank began to implement its three-year "Strategic Compact," a plan for the comprehensive renewal of the World Bank. Under this plan, President Wolfensohn pledged to transform the working culture of the Bank from one focusing on project development and approval to one which focuses on project implementation, quality and development effectiveness. The Strategic Compact has been underpinned by the Bank's "Cost Effectiveness Review," developed jointly with KPMG, which recommended significant changes to internal Bank procedures and staff levels. The Bank is nearing the end of its program of institutional rationalization and decentralization of its operations. A significant shift of operational staff to the field has been undertaken with the objective of moving the Bank closer to clients.

Performance Indicators: Poverty Reduction

The Wapenhans Report on improving portfolio quality emphasized the importance of developing a better understanding of the impact of the Bank's operations by setting clear performance goals. Since poverty reduction is the Bank's overarching objective, this is one of the key sectors where the Bank has been working to establish meaningful performance indicators.

Three classes of indicators have been developed: input indicators, process or output indicators, and impact indicators.

The following provides some simple examples of indicators for a secondary school project for girls.

Input Indicators: number of trainees trained; amount of credit disbursed; numbers of schools to which funds were disbursed.

Process/Output Indicators: number of graduating students; number of facilities installed/repaired.

Impact Indicators: number of girls from project schools who found employment.

Improving the development effectiveness of the Bank's operations is crucial to ensuring that its broader policy objectives are being met. To assist the Bank in better targeting its work, considerable effort has gone into designing development impact indicators that can help track the progress of Bank operations and assess their impact on affected peoples. The framework for a performance scorecard has been developed for the monitoring performance on roughly 12 indicators in sector-specific areas, such as education, agriculture, finance and poverty reduction. Work is still ongoing to improve the indicators included in the scorecard in order to add greater specificity and clarity to assessing development outcomes.

Involving NGOs in Decision-Making

President Wolfensohn has been a major catalyst behind the Bank's outreach program with non-governmental organizations (NGOs); particular emphasis has been placed on the importance of expanding partnerships with civil society. In 1998, the Bank formalized its approach to strengthening the quality and understanding of the Bank's partnerships with the NGOs in a policy paper. The outcome of this initiative and others is that the level of NGO involvement in Bank-supported operations has continued to grow. About 50 per cent of Bank projects across all major sectors included some form of NGO participation in FY 1998.

This participation was particularly evident in the face of the emerging markets financial crisis. NGOs and representatives from civil society in the affected countries were brought together with Bank officials to discuss and learn about the impact that the economic crisis has on the poor.

One key venue for ongoing dialogue is the NGO-World Bank Committee. Membership consists of senior Bank managers and 26 NGO leaders from around the world (15 from developing countries). Canada's current representative on this committee is Mario Lavoie of the International NGO Co-operation Project. In 1998, this committee took steps to decentralize its activities. While broad areas of work on participation and southern NGO capacity-building continue to be guided at the central level, greater emphasis is being placed on regional meetings, where region-specific issues and strategies for effective co-operation can best be identified and implemented.

Within Canada, NGOs have participated in a regular series of government inter-departmental meetings and conferences on such issues as multilateral debt, the environment, IDA and Africa. This consultation has proven useful for advancing Canadian interests at the Bank. The Canadian government has benefited greatly from the expertise and advice offered by Canadian NGOs on a broad range of development issues. Through this collaborative process with government, the views of Canadian NGOs have helped shape Canada's position in World Bank project and policy discussions.

IBRD Selective Capital Increase: On June 23, 1998 the World Bank Board of Governors approved a selective capital increase of 23,246 shares for five countries (Brazil, Denmark, the Republic of Korea, Spain and Turkey). This capital increase was provided in recognition of the fact that the economic position of these countries had grown since their initial capital subscriptions. The selective capital increase will provide paid-in capital of US\$168.3 million and additional callable capital of US\$2.6 billion. The selective increase, once fully subscribed, will affect Canada's ownership share in the Bank only marginally (it will decrease by four hundredths of 1 per cent).

Managing Canada's Interests at the World Bank

Finance Minister Paul Martin, as Canada's Governor of the World Bank, is responsible for the management of Canada's interests at the Bank. Minister Martin exercises his influence through exchanges of views at the Development Committee and Annual Meetings, and through discussions with the President of the World Bank. For example, at the Annual Meetings in 1998, Governors addressed the issue of how to help countries affected by the emerging market financial crisis, and discussed progress in helping the poorest countries with unsustainable debt burdens through the Initiative for Heavily Indebted Poor Countries (see above) as well as how to improve co-operation between the Bank and the Fund. Huguette Labelle, the President of CIDA, is Canada's Alternate Governor for the World Bank.

The day-to-day handling of Canada's diverse interests at the Bank is delegated by the Governor to the Executive Director, currently Ms. Terrie O'Leary, who was elected in October 1998. Ms. O'Leary is one of 24 Executive Directors; she represents Canada and 12 other countries (Ireland and eleven Caribbean countries) at the Executive Board. The Board is currently made up of 24 Executive Directors; 12 are from developing and transition countries and 12 from developed countries.

One of the important functions played by Ms. O'Leary is her oversight of the Bank's administration and spending through her membership on the Board of Director's Budget Committee. The Canadian Executive Director is one of eight Budget Committee members. The Budget Committee is responsible for approving the Bank's administrative budget. In FY 1998, the approved budget was US\$1.4 billion, which reflected a 0.1-per-cent decrease from the level in FY 1997. In addition to its role in overseeing Bank administrative operations and spending, the Budget Committee also deliberates extensively on the level of planned Bank financing operations. The Budget Committee also played an important role in the development of the Strategic Compact in 1997, which set out a comprehensive set of internal Bank reforms designed to improve efficiency. The Budget Committee will continue to play an important role in monitoring progress on the implementation of the Strategic Compact.

Canada's Office at the World Bank

During the course of the year, the office assisted Team Canada, through the Montreal World Trade Centre, in organizing 10 trade missions to the World Bank for specific sectors (e.g., infrastructure, urban development, telecoms, health, legal, energy). These missions enabled more than 150 companies to learn more about the operations of the Bank and business opportunities available through the Bank. The office also assisted the Saskatchewan Trade and Export Partnership (STEP) with the organization of several missions to Washington. In discussions with the World Bank, the STEP missions focused in particular on the agricultural sector and indigenous peoples initiatives. STEP hosted the 1998 retreat of the IFC agribusiness sector in Regina.

The office also helped the Bank's Economic Development Institute (EDI) put in place a course on urban and city management, which will be held in Toronto on May 2-14, 1999. This event will allow Canada to showcase its expertise in this area.

Organization of the Office

In addition to the Executive Director, the office has two Canadian advisors and two executive assistants. These officers are in constant communication with the Canadian government – not only with the Department of Finance, but also with CIDA and the Department of Foreign Affairs and International Trade. The Department of Finance co-ordinates Canada's policy advice and channels it to the Executive Director and through her to World Bank management.

Structure of the Executive Director's Office

Executive Director:	Ms. Terrie O'Leary
Canadian Advisor:	Ms. Kathryn Hollifield
Canadian Advisor:	Mr. François Pagé
Canadian Assistant:	Mr. John Sinclair
Canadian Assistant:	Mr. Gilles René
Phone:	(202) 458-0082; fax: (202) 477-4155
Address:	MC-12-175, 1818 H St. N.W., Washington, DC 20433, USA

One of the key roles of the office is to provide assistance to Canadian business people. While the Bank provides significant procurement opportunities, it is a large organization with an opaque structure that is often difficult for newcomers to navigate. Canada's procurement advisors, along with the Canadian Embassy in Washington, assist in providing advice and information on how to do business with the Bank (details are provided below.) Another point of contact for Canada is the Bank's External Affairs Department, which is headed by Mark Malloch Brown.

Canadian Procurement at the World Bank

Canadian companies and consultants often provide supplies, equipment or services to projects financed through the World Bank. Canadian expertise in the power, environmental, engineering, human resources, health, education, telecommunications, financial and transportation sectors has led to procurement opportunities for Canadian firms on developing country projects around the globe.

In FY 1998, many Canadian firms continued to benefit from Canada's World Bank membership by accessing procurement opportunities under World Bank-financed loans. FY 1998 disbursements to Canadian companies for the supply of goods and services under Bank project loans reached US\$114 million. In addition, the World Bank estimates that US\$119 million was disbursed to Canadian companies for procurement under adjustment loans, bringing the total fiscal 1998 Bank disbursements to Canadian companies to US\$233 million.

It is particularly noteworthy that Canadians continue to excel in the consulting field. Canadian consultants win more contracts on a per capita basis than any other supplying nation. As a per cent of disbursements, Canadian consulting firms ranked fourth in FY 1998 among all supplying countries and accounted for almost 7 per cent of total disbursements. Canadian contracts were spread across a wide variety of countries, including China, Lebanon, India, Algeria, Rwanda, Burundi and Sri Lanka.

Last year, Canadian companies received 113 contracts. The Canadian company that was most active in Bank-financed projects in 1998 was Tecsalt International Limitée (Montréal), which won Bank financing for projects in Algeria, Benin, Gabon, Haiti, Madagascar and Argentina. The firm Canadex Technologies won a major contract in Argentina for the supply of computer software. CRC Sogema Inc. won a contract valued at over US\$8 million to provide a system for automating land title registration in Lebanon. Various Canadian companies also won contracts totalling US\$18 million for projects in China in the energy, environment, and transport sectors. Overall, Bank-financed projects in the energy sector offer some of the best opportunities to Canadian companies.

The 1998 results bring cumulative disbursements to Canadian companies to close to US\$3.5 billion. The Bank also reports on larger procurement contracts that have been awarded during the year even though project disbursements will occur in the future. In this regard, Canadian firms were awarded US\$73 million in FY 1998.

Trust Fund Activities

A significant source of funds to facilitate increased Canadian participation in World Bank projects are the consultant trust funds supported by CIDA and administered by the World Bank. These are used to introduce new Canadian consultants to the Bank, as well as to encourage the Bank to undertake

activities in areas of priority to Canada. In June 1995, CIDA concluded a new agreement with the World Bank, the *Co-financing, Technical Assistance and Consultant Trust Fund Framework Agreement*, to govern all its trust fund arrangements with the Bank. These funds lead directly to contracts for Canadians in the feasibility, assessment and design of development projects.

In 1995, CIDA redesigned its Canadian Consultant Trust Fund (Country Specific), which supports Canadian consultants involved in the identification, preparation and implementation of World Bank-financed projects in 14 identified developing countries. CIDA and Environment Canada also negotiated the new Canadian Consultant Trust Fund for the Global Environment with the World Bank. For further information on these and other Canadian trust funds at the World Bank, contact Ms. Mary Stamp, Commercial Counsellor at the Canadian Embassy in Washington (phone (202) 682-7719; fax (202) 682-7789). Canadians can also access Bank funds through the Project Preparation Facility, the Global Environmental Facility, and the Policy and Human Resources Development Fund.

Canadian Success Stories

In recent years, Canadian mining companies continued to be the prime beneficiaries of World Bank Group financing and capital mobilization efforts. However, a number of Canadian companies from other key sectors have begun to work with the World Bank Group. For example, in FY 1998:

- Canada China Power Inc., a consortium of Acres International, AGRA Monenco and SNC-Lavalin, won a US\$4.3-million contract to supervise construction under the Shanxi Wanjiazhai Yellow River Water Transfer project.
- MIGA issued a political risk guarantee worth US\$27 million to the Bank of Nova Scotia for its investment in the construction and operation of a hotel in Lima, Peru.
- CanAgro Energy Corporation of Calgary and its partner JKX received a US\$6-million convertible loan from the IFC to support a US\$19-million expansion of an existing oil field in the Republic of Georgia.

International Finance Corporation

The International Finance Corporation (IFC) is playing an increasingly important role in the Bank Group's private sector development activities. As the fastest growing entity within the Bank Group, it has also attracted the attention of Canadian companies and financial institutions that are interested in making direct investments in emerging markets. Given its private sector mandate and concerns for investor and client commercial confidentiality, the IFC does not report detailed procurement figures as the IBRD and IDA given their public sector role.

One of the IFC's essential functions is to mobilize financing and expert advice in favour of private sector projects in emerging markets. The Corporation has been an excellent resource for Canadian financial institutions, as well as for Canadian firms whose technical expertise is particularly suitable for these markets. In March 1999, an IFC delegation attended the annual dinner of the Association of Canada Petroleum Products in Calgary. This brought senior IFC officials in close contact with leading Canadian oil and gas companies to highlight financing opportunities through the IFC.

One of the most significant developments on the IFC front in the mid-1990s was the return of Canadian financial institutions (typically commercial banks) to the IFC loan syndication program. This important program helps to mobilize private financing for IFC projects and provides financial institutions with the opportunity to invest in emerging markets. By investing alongside the IFC, financial institutions participating in the syndication program gain access to potential new customers, attain a high yielding asset and, with the presence of the IFC as an investor in these projects, are provided a degree of political risk coverage. By the end of FY 1998, Canadian financial institutions had provided some US\$334 million in co-financing for IFC projects.

As with other international development institutions, the financial crisis has forced the IFC to make some major changes. Throughout the developing world, the demand for long-term private capital continues to outstrip supply. This is particularly the case as lenders pull out of risky markets. Even companies in countries once considered to have "graduated" from the IFC's programs are again seeking help from the IFC and other multilateral institutions. These companies are looking for financial support, but more importantly also seek technical support to help them in their restructuring processes.

A second challenge ahead for the IFC is to ensure that in the face of massive demand, they do not ignore the frontier countries, such as those in Sub-Saharan Africa. In today's global environment, the IFC's role in the poorest countries is more important than ever. The IFC, with the support of IDA, will work to build programs that can provide financial services for micro-enterprises as well as small- and medium-sized enterprises, and that will deepen financial infrastructure to mobilize and allocate domestic savings. The IFC will also work to develop physical infrastructure through new investments and privatization by mobilizing domestic and foreign capital.

The IFC will be meeting these challenges with new leadership. On January 1, 1999 Peter L. Woicke officially took over as the IFC's new executive vice-president.

Learning About Opportunities

Canadian firms, organizations and institutions who are interested in pursuing markets created by World Bank-financed projects are urged to attend monthly business briefings (held on the first Thursday of each month) at Bank headquarters in Washington.

Both the Canadian Embassy in Washington, through the Office for Liaison with International Financial Institutions (OLIFI) ((202) 682-7719), and the Canadian Executive Director's Office at the World Bank ((202) 458-0082), work to assist Canadian firms and consultants seeking to participate in World Bank-financed projects. The range of opportunities is wide – a power project in China, an environmental assessment in Peru or a legal/judicial reform project in Russia are examples. The OLIFI and the Canadian Executive Director's Office at the World Bank also encourage Canadian companies to contact them if they are interested in competing for procurement contracts.

Canada's Financial Participation

International Bank for Reconstruction and Development (IBRD)

Canada's share of the IBRD capital is approximately 3 per cent. A relatively small proportion of this capital contribution is required to be "paid-in" – about 6 per cent overall, but just 3 per cent in the last capital contribution. The remainder is "callable," in the unlikely event that the IBRD needs it from member countries. Periodically, the IBRD replenishes its capital through "General Capital Increases (GCIs). The IBRD's last such capital increase (GCI III) in 1988 was for US\$76.5 billion. Canada was allocated 19,655 new shares valued at US\$2.37 billion. The paid-in portion of these shares is US\$71.1 million. These shares were subscribed over a five-year period ending in 1993. As of June 30, 1998, Canada's cumulative subscriptions to the IBRD's capital stock totalled US\$5,404 million (44,795 shares), of which US\$335 million has been paid-in.

International Development Association (IDA)

In November 1998, donors agreed to a twelfth replenishment of IDA in the amount of US\$20.5 billion. This will finance IDA's lending program over the three-year period to June 30, 2002.

Canada maintained the same share as in IDA 11 of 3.75 per cent of donor contributions at a total cost of C\$607 million. To meet these obligations, Canada will issue three demand notes in 1999, 2000 and 2001. Each of these notes is then encashed over a six-year period. At the end of FY 1998, Canada's cumulative contributions to IDA (subscriptions and contributions) were the equivalent of US\$4.38 billion.

International Finance Corporation (IFC)

The Government of Canada is a strong supporter of the IFC's technical assistance and advisory (TA) programs, providing nearly US\$23 million in funding for these activities. In FY 1998, Canada contributed about US\$5.7 million to these programs. Canada's support for these programs has significantly strengthened the IFC's ability to extend its work program in countries with difficult business environments; to undertake important work on strengthening legal and regulatory infrastructure; and to help these countries to develop effective private sector financial market institutions.

Multilateral Investment Guarantee Agency (MIGA)

MIGA was established in 1988 to encourage direct foreign investment in developing countries by protecting investors from certain non-commercial risks.

On March 31, 1998, MIGA's Board of Directors agreed on the framework for the General Capital Increase (GCI). The amount of the increase will be US\$850 million, which will be divided into 78,559 shares of capital stock. Of this amount, 17.65 per cent will be paid-in and 82.35 per cent will be callable. The subscription period, over which the paid-in share will be provided, will be three years.

Under the GCI, Canada will receive an additional 2,260 shares, with a paid-in portion of US\$4,315,990 and a callable portion of US\$20,137,210. Canada's paid-in contribution to MIGA is non-budgetary. Canada's share in MIGA will stay at 2.87 per cent.

On February 12, 1999, MIGA announced a landmark increase from US\$50 million to US\$110 million in the amount of political risk coverage it may issue for foreign direct investments in a project and an increase from US\$250 million to US\$350 million in its country limit. This development will allow investors access to higher levels of risk insurance in MIGA's 127 countries of operations.

Future Challenges

The relative importance of the World Bank as financier to developing countries increases in times of financial stress. Total private capital flows to developing countries increased from US\$44 billion in 1990 to over US\$250 billion in 1997, yet fell significantly after as a result of the emerging markets financial crisis. Moreover, private capital flows to developing countries have never been evenly distributed. The major challenge for the future will therefore be for the Bank to find more creative ways to meet the increasingly diverse needs of its clients, some of which benefit from greater private capital, but many of which do not.

The Bank will face several other challenges in the coming year. As noted, the evolving situation in South East Asia and several other large emerging market economies will require increased resources and enhanced co-ordination with other international institutions and with private sectors in emerging market economies. At the same time, the Bank will need to look at more innovative ways to address the problems of the poorest countries, particularly those in Sub-Saharan Africa. President Wolfensohn's proposed Comprehensive Development Framework should help guide the Bank by providing an improved analytical tool for assessing future development priorities. The Bank will need to remain flexible in its approach to development in order to create a better sense of ownership of Bank programs within individual countries.

Without careful attention to the unique needs of individual countries, the Bank will be unable to meet its objectives of improving the quality of its operations and strengthening its development impact.

Last year the Bank saw an unprecedented increase in demand for financing; the world has not yet seen the resolution of the emerging markets financial crisis and it is likely that this demand will remain high. The Bank will remain a key player in the international effort to combat the financial crisis. However, with its responsibilities to remain an active lender comes the equally important responsibility of ensuring that it has sufficient resources to handle the job. Thus, a key challenge for the future will be ensuring the financial stability of the Bank as a development institution.

JOINT ISSUES

Overview

The IMF and the World Bank are important institutions for Canada, each playing a unique role in the international economic and financial system. Nevertheless, there are key areas where the mandates of the two Bretton Woods institutions overlap, or where there is a requirement for close co-operation and co-ordination of activities. Indeed, at the Halifax Summit, G-7 leaders asked that efforts be made to increase co-operation and co-ordination between the IMF and the World Bank. The heads of both institutions have put considerable effort into fulfilling that objective. Two particular examples – the joint preparation of a proposed program of assistance for HIPC's and co-operation on addressing financial sector reform – are examined below.

Strengthening Financial Sectors

Problems in the financial sector, and especially the banking system, can be disruptive to growth and macroeconomic stability and can spill over regionally and internationally, as highlighted by the emerging markets financial crisis. In response to concerns about such problems, the IMF and World Bank are devoting increasing attention to financial sector issues. Discussions in both institutions in the past couple of years have focused on how they can assist member countries to establish and maintain sound financial systems.

In 1998, in response to a request from G-7 leaders at the Birmingham Summit, the two institutions developed a strategy for closer collaboration in the financial sector. The Bank and Fund have worked to define a better division of responsibilities between themselves. The Bank and Fund have also enhanced their co-operation with relevant international supervisory and regulatory agencies and have begun to involve national experts in Bank/Fund financial sector work. The persistence of deep financial problems in emerging markets underlines the importance of effective collaboration on financial sector activities.

It is important that Bank-Fund collaboration ensure that emerging financial sector problems are promptly identified, that each institution take the lead in its own areas of primary responsibility, and that duplication of activity is avoided. A special Financial Sector Liaison Committee has been established to enhance operational co-ordination on work in the financial sector in individual countries.

The Fund's involvement should relate primarily to the macroeconomic aspects of financial systems and markets. The Bank's primary concern should be with the sectoral and developmental aspects of financial systems in developing countries. It is especially important that the Fund aim to identify at an early stage systemic financial sector problems. The Bank should then follow with implementation of the restructuring of weak financial sectors.

However, the Fund has a role to play in banking system restructuring in crisis situations, particularly in countries where it has been active. Joint Fund-Bank missions in cases of financial crises would facilitate timely Bank involvement. Close collaboration is also required with other institutions and groupings working in the area of financial stability, particularly the Bank for International Settlements and the Basle Committee on Banking Supervision.

To strengthen co-ordination in the area of financial market supervision and surveillance, G-7 Finance Ministers have approved a proposal by Hans Tietmeyer, the President of the Bundesbank, to establish a Financial Stability Forum. Both the IMF and the World Bank will participate in the Forum to help national and international authorities and supervisory bodies promote international financial stability.

Canada has proposed the establishment of a peer review process in the supervision and regulation of financial institutions that would complement the other efforts in this area. The peer review process is under consideration by the IMF and the Bank.

Multilateral Debt Relief

In June 1995, at the Halifax Summit, the G-7 countries urged the Bretton Woods institutions to develop a comprehensive approach to address the special problems of the poorest countries with large multilateral debt burdens through the flexible application of existing instruments and the creation of new mechanisms for debt relief. Just over a year later, at the 1996 Annual Meetings of the IMF and World Bank, the details of a new debt initiative for HIPC¹s were endorsed by the Interim and Development Committee.

The primary goal of this initiative (the "HIPC Initiative") is to ensure that HIPC¹s demonstrating a track record of sustained good policy performance are able to achieve overall external debt sustainability, strengthen their poverty reduction programs and permanently "exit" from future debt rescheduling exercises.

To qualify for exceptional relief, a country must be IDA-only and face an unsustainable debt situation after the full application of current debt relief mechanisms. The sustainability of the debt burden is determined on the basis of the ratio of debt-to-exports and debt-service-to-exports (calculated in net present value terms). A debt-to-exports ratio in the range of 200-250 per cent and a debt-service-to-exports ratio in the range of 20-25 per cent are judged to be the upper limit of debt sustainability for HIPC¹s.

The IMF and World Bank have estimated that full implementation of the initiative could require debt relief of about US\$9.7 billion, of which more than US\$5 billion would come from multilateral institutions. After more than two years since its inception, 12 countries have been considered for debt relief under the HIPC Initiative. Debt relief has been agreed to for seven countries – Bolivia, Guyana, Burkina Faso, Côte d'Ivoire, Mali, Mozambique and Uganda – totalling about US\$3.1 billion in present-value

terms, or a reduction in nominal debt service of over US\$6 billion. Both Uganda and Bolivia have completed the HIPC process and have received debt relief totalling nearly US\$800 million in present-value terms, and more than US\$1.4 billion in debt service relief. Preliminary reviews will have also been completed for Ethiopia, Guinea-Bissau and Mauritania, which will also qualify for debt relief under the HIPC Initiative. Over the next few years, it is expected that about 20 countries will benefit from the exceptional debt relief provided by this Initiative.

In 1998, debt relief for the poorest countries re-emerged as a central issue. In the two years since its inception, there have been growing criticisms that the implementation of the HIPC Initiative has been too slow and rigid and that assistance has been insufficient to bring about true debt sustainability. As a result, there will be a review of the HIPC Initiative in 1999 at the IMF and the World Bank and debt will be a key issue for discussion among the G-7 at the Cologne Summit in June 1999. Discussions are continuing on the development of a special program of assistance for post-conflict HIPCs and on IMF gold sales to support the Fund's participation in the Initiative and ESAF programs.

Canada has been a strong supporter of reducing the unsustainable debt burdens of the poor countries. Bilateral assistance has been provided in three areas:

- Canada has forgiven all Official Development Assistance (ODA) debt from HIPCs, with the exception of Burma/Myanmar; this has amounted to \$900 million since 1978.
- Canada helped to close the financing gap in the debt relief package for Mozambique; in March 1998, Canada pledged to contribute US\$8 million, despite having no loans outstanding to this country; and
- Canada contributed an additional US\$22 million to the HIPC Trust Fund of which US\$14 million has been earmarked to ensure the full participation of the African Development Bank; of the remainder, Canada used US\$1 million to provide debt relief for Guyana.

While progress has been made under the HIPC Initiative, Canada nonetheless recognizes changes are needed and we are working with our G-7 counterparts towards securing more generous and timely debt relief. Moreover, Canada is calling on other bilateral donors to follow its example and forgive bilateral ODA debt from HIPCs. We are also examining ways in which to assist HIPCs by moving to providing up to 100 per cent debt relief under the Paris Club for eligible least developed countries.

Existing Mechanisms for Assisting Heavily Indebted Poor Countries

World Bank Mechanisms

Regular Lending – The World Bank makes IDA credits available on highly concessional terms. In general, these take the form of 40-year loans which carry no interest rate charges.

Enhanced Access – Countries which are making special efforts to clear their arrears or undertake comprehensive debt workouts are given increased access to relatively scarce IDA resources.

The Fifth Dimension Facility – IDA-only countries which have incurred past market-rate borrowings from the IBRD also receive annual interest rate subsidies. In recent years, these have had the effect of reducing the interest rate on these earlier IBRD loans from an average of about 6 per cent to less than 1 per cent.

IDA-Only Debt Reduction Facility – The IBRD provides grant financing (which carries no interest or principal) to eliminate up to 100 per cent of the debt which IDA-only countries owe to commercial banks. To date, this World Bank facility has extinguished almost US\$3 billion of commercial-bank debt at no cost to these developing countries.

International Monetary Fund Mechanisms

Surveillance of Policies – In individual countries, the IMF provides advice which encourages the adoption of policies that provide a basis for sustained economic growth and price stability. More broadly, IMF surveillance of the global monetary system is aimed at promoting the balanced growth of world trade and an orderly and stable system of exchange rates.

Enhanced Structural Adjustment Facility – ESAF is the Fund's major source of concessional financing for low-income countries which are undertaking major reform efforts in the context of an IMF program. In recognition of the special challenges of these countries, ESAF provides loans which carry longer maturity periods and significantly lower interest rates than regular IMF arrangements.

Technical Assistance – Both the IMF and World Bank provide substantial technical assistance to low-income countries to help strengthen their debt management policies.

ANNEX 1

Active IMF Lending Arrangements – As of December 31, 1998

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
(in SDR millions)				
Stand-by arrangements – Total			32,858.97	12,613.64
Bosnia & Herzegovina	May 29, 1998	May 28, 1999	60.60	36.36
Brazil	December 2, 1998	December 1, 2001	13,024.80	9,605.79
Cape Verde	February 20, 1998	April 19, 1999	2.10	2.10
Djibouti	April 15, 1996	March 31, 1999	8.25	1.95
El Salvador	September 23, 1998	February 22, 2000	37.68	37.68
Estonia	December 17, 1997	March 16, 1999	16.10	16.10
Korea	December 4, 1997	December 3, 2000	15,500.00	1,450.00
Latvia	October 10, 1997	April 9, 1999	33.00	33.00
Philippines	April 1, 1998	March 31, 2000	1,020.79	728.41
Thailand	August 20, 1997	June 19, 2000	2,900.00	600.00
Uruguay	June 20, 1997	March 19, 1999	125.00	10.80
Zimbabwe	June 10, 1998	June 30, 1999	130.65	91.45
EFF arrangements – Total			24,414.26	14,697.23
Argentina	February 4, 1998	February 3, 2001	2,080.00	2,080.00
Azerbaijan	December 20, 1996	December 19, 1999	58.50	17.56
Bulgaria	September 25, 1998	September 24, 2001	627.62	523.02
Croatia	March 12, 1997	March 11, 2000	353.16	324.38
Gabon	November 8, 1995	March 7, 1999	110.30	49.63
Indonesia	August 25, 1998	November 5, 2000	4,669.10	1,882.40
Jordan	February 9, 1996	February 8, 1999	238.04	35.52
Kazakhstan	July 17, 1996	July 16, 1999	309.40	154.70
Moldova	May 20, 1996	May 19, 2000	135.00	97.50
Pakistan	October 20, 1997	October 19, 2000	454.92	398.06
Panama	December 10, 1997	December 9, 2000	120.00	80.00
Peru	July 1, 1996	March 31, 1999	300.20	139.70
Russia	March 26, 1996	March 25, 2000	13,206.57	7,426.85
Ukraine	September 4, 1998	September 3, 2001	1,645.55	1,400.00
Yemen, Republic of	October 29, 1997	October 28, 2000	105.90	87.90

Active IMF Lending Arrangements – As of December 31, 1998 (cont'd)

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
ESAF arrangements – Total			3,896.85	2,123.11
Albania	May 13, 1998	May 12, 2001	35.30	29.42
Armenia	February 14, 1996	September 14, 1999	109.35	20.93
Azerbaijan	December 20, 1996	December 19, 1999	93.60	23.40
Benin	August 28, 1996	August 27, 1999	27.18	18.12
Bolivia	September 18, 1998	September 17, 2001	100.96	84.13
Burkina Faso	June 14, 1996	September 13, 1999	39.78	6.63
Cameroon	August 20, 1997	August 19, 2000	162.12	81.06
Central African Republic	July 20, 1998	July 19, 2001	49.44	41.20
Chad	September 1, 1995	August 25, 1999	49.56	8.26
Congo, Republic of	June 28, 1996	June 27, 1999	69.48	55.58
Côte d'Ivoire	March 17, 1998	March 16, 2001	285.84	161.98
Ethiopia	October 11, 1996	October 22, 1999	88.47	58.98
Gambia	June 29, 1998	June 28, 2001	20.61	17.18
Georgia	February 28, 1996	July 26, 1999	166.50	27.50
Ghana	June 30, 1995	June 29, 1999	164.40	27.40
Guinea	January 13, 1997	January 12, 2000	70.80	23.60
Guyana	July 15, 1998	July 14, 2001	53.76	44.80
Haiti	October 18, 1996	October 17, 1999	91.05	75.88
Kenya	April 26, 1996	April 25, 1999	149.55	124.63
Kyrgyz Republic	June 26, 1998	June 25, 2001	64.50	53.75
Macedonia, FYR	April 11, 1997	April 10, 2000	54.56	27.28
Madagascar	November 27, 1996	November 26, 1999	81.36	54.24
Malawi	October 18, 1995	December 16, 1999	50.96	7.64
Mali	April 10, 1996	August 5, 1999	62.01	10.34
Mongolia	July 30, 1997	July 29, 2000	33.39	27.83
Mozambique	June 21, 1996	August 24, 1999	75.60	12.60
Nicaragua	March 18, 1998	March 17, 2001	100.91	84.09
Niger	June 12, 1996	September 1, 1999	57.96	9.66
Pakistan	October 20, 1997	October 19, 2000	682.38	454.92
Rwanda	June 24, 1998	June 23, 2001	71.40	59.50
Senegal	April 20, 1998	April 19, 2001	107.01	71.34
Tajikistan	June 24, 1998	June 23, 2001	100.30	60.00
Tanzania	November 8, 1996	November 7, 1999	161.59	38.76
Uganda	November 10, 1997	November 9, 2000	100.43	43.52
Yemen, Republic of	October 29, 1997	October 28, 2000	264.75	176.75
Total			61,170.08	29,433.98

ANNEX 2

IBRD Loans and IDA Credits – Fiscal Year 1998 (July 1, 1997 – June 30, 1998)

	IBRD Amount	IDA Amount	Total No.	Total Amount
(in millions of US dollars)				
By area				
Africa	57.4	2,816.4	59	2,873.8
East Asia and Pacific	8,847.0	776.2	45	9,623.2
South Asia	1,318.0	2,546.4	25	3,864.4
Europe and Central Asia	4,462.3	761.9	69	5,224.2
Latin America & the Caribbean	5,679.5	360.2	68	6,089.7
Middle East & North Africa	722.0	246.5	20	968.5
Total	21,086.2	7,507.8	286	28,594.0
By purpose				
Agriculture	1,480.5	1,236.9		2,717.4
Education	1,927.8	1,201.5		3,129.3
Electric power and other energy	1,115.0	889.0		2,004.0
Environment	753.8	148.3		902.1
Finance	6,103.0	141.5		6,244.5
Industry	–	73.1		73.1
Mining/other extractive	1,369.5	7.0		1,376.5
Multisector	1,187.7	669.4		1,857.1
Oil and gas	130.0	10.0		140.0
Population, health and nutrition	911.5	1,079.4		1,990.9
Public sector management	1,638.5	351.7		1,990.2
Social sector	933.9	381.6		1,315.5
Telecommunications/informatics	68.1	2.4		70.5
Transportation	2,134.7	977.8		3,112.5
Urban development	893.6	223.9		1,117.5
Water supply and sanitation	438.6	114.3		552.9
Total	21,086.2	7,507.8		28,594.0

ANNEX 3

IBRD Loans and IDA Credits to Developing Countries

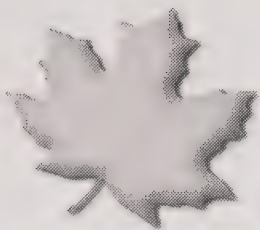
	IBRD		IDA		Total	
	No.	Amount	No.	Amount	No.	Amount
(in millions of US dollars)						
By fiscal year¹						
Cumulative to 1968	549	11,418.1	116	1,831.8	665	13,249.9
Total 1969-1973	374	8,917.8	273	3,931.6	647	12,849.4
Total 1974-1978	666	24,372.3	376	7,947.4	1,042	32,319.7
Total 1979-1983	711	44,908.0	518	16,368.1	1,229	61,276.1
1983-1984	129	11,947.2	106	3,575.0	235	15,522.2
1984-1985	131	11,356.3	105	3,028.1	236	14,384.4
1985-1986	131	13,178.8	97	3,139.9	228	16,318.7
1986-1987	127	14,188.2	108	3,485.8	235	17,674.0
1987-1988	118	14,762.0	99	4,458.7	217	19,220.7
1988-1989	119	16,433.2	106	4,933.6	225	21,366.8
1989-1990	121	15,179.7	101	5,522.0	222	20,701.7
1990-1991	126	16,392.2	103	6,293.3	229	22,685.5
1991-1992	112	15,156.0	110	6,549.7	222	21,705.7
1992-1993	122	16,944.5	123	6,751.4	245	23,695.9
1993-1994	124	14,243.9	104	6,592.1	228	20,836.0
1994-1995	134	16,852.6	108	5,699.2	242	22,521.8
1995-1996	129	14,656.0	127	6,864.0	256	21,520.0
1996-1997	141	14,525.0	100	4,622.0	241	19,147.0
1997-1998	151	21,086.2	135	7,507.8	286	28,594.0
Total	4,215	316,517.2	2,915	109,071.7	7,130	425,589.5

¹ Fiscal years are those of the World Bank Group (July 1 to June 30).

ANNEX 4

Disbursements by IBRD and IDA Borrowers – Goods and Services from Canada – to June 30, 1998

	IBRD Amount	IDA Amount	Total Amount
(in millions of US dollars)			
By calendar year			
Cumulative to December 1960	133.5	–	133.5
1961	8.2	–	8.2
1962	3.7	–	3.7
1963	5.6	7.4	13.0
1964	4.7	1.8	6.5
1965	5.4	2.7	8.1
1966	11.6	5.3	16.9
1967	13.2	14.7	27.9
1968	6.3	7.8	14.1
1969	4.4	11.0	15.4
1970	7.6	1.3	8.9
1971	11.1	2.2	13.3
1972	10.5	2.3	12.8
1973	12.4	5.1	17.5
1974	15.8	8.4	24.2
1975	22.1	15.0	37.1
1976	25.7	10.8	36.5
1977	34.5	4.8	39.3
1978	26.1	5.5	31.6
1979	44.4	8.1	52.5
1980	51.5	7.8	59.3
1981	94.3	14.5	108.8
1982	75.0	17.6	92.6
1983	82.3	26.9	109.2
1984	92.6	54.3	146.9
1985	94.3	39.7	134.0
1986	184.8	46.8	231.6
1987 (January – June)	92.8	23.4	116.2
By fiscal year			
1988 (July 1 – June 30)	182.1	47.4	229.5
1989	197.0	45.0	242.0
1990	164.0	41.0	205.0
1991	139.0	34.0	173.0
1992	131.0	38.0	169.0
1993	151.0	41.0	192.0
1994	115.0	69.0	184.0
1995	123.0	48.0	171.0
1996	169.0	56.0	225.0
1997	113.0	42.0	155.0
1998	82.0	32.0	114.0
Total	2,691.0	812.0	3,503.0
Per cent of total disbursements	2.32	1.84	2.19
Per cent of FY 1998 disbursements	2.58	2.18	2.44



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AND RELATED

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March 2000



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INTRODUCTION

The Bretton Woods institutions – the International Monetary Fund (IMF or the Fund) and the World Bank – were founded at a conference held in Bretton Woods, New Hampshire, in 1944. The IMF was established to promote the smooth functioning of the international monetary system, encourage international trade and support high rates of sustainable economic growth. The IMF has become a central institution in the international monetary system. It exercises a surveillance function by monitoring members' economic policies, provides policy advice and extends short- and medium-term financial assistance to countries faced with balance of payments difficulties.

The World Bank's goal is to reduce poverty by raising living standards and by promoting sustainable development in developing countries. As the premier development institution in the world, it provides a wide range of assistance to developing countries, including lending and technical assistance for projects which promote sustainable growth and an improved quality of life, and structural economic policy advice. The World Bank Group is comprised of four organizations: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The IBRD and IDA together are commonly referred to as the "World Bank" (or the "Bank" in the following). IDA is the component that provides assistance to the world's poorest developing countries.

Canada is the eighth largest member of the Fund after the six other Group of Seven (G-7) countries and Saudi Arabia, and it is the sixth largest member of the World Bank. Canada also represents Ireland and a number of Caribbean countries¹ at the IMF and the World Bank. Canada's formal participation is authorized under the Bretton Woods and Related Agreements Act. Under Section 13 of the Act, it is stated that:

The Minister of Finance shall cause to be laid before Parliament, on or before March 31 next following the end of each year or, if Parliament is not then sitting, on any of the first thirty days next thereafter that either House of Parliament is sitting, a report containing a general summary of operations under this Act and details of all those operations that directly affect Canada, including the resources and lending of the World Bank Group, the funds subscribed or contributed by Canada, borrowings in Canada and procurement of Canadian goods and services.

¹ At the IMF, Canada represents 10 Caribbean countries: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. In addition to these countries, Canada represents Guyana at the World Bank.

The sections that follow review the activities and operations of first the IMF and then the World Bank for the year 1999. A final section deals with issues common to both institutions. The annexes contain detailed numerical summaries of the year's activities.

Roles of the International Monetary Fund and World Bank

International Monetary Fund

- Oversees the international monetary system and promotes international monetary co-operation.
- Promotes orderly exchange rate relations among member countries.
- Provides short- to medium-term financial support to members facing balance of payments difficulties.
- Draws its financial resources primarily from the quota subscriptions of its members.

World Bank

- Provides support for poverty reduction through investments in health and education.
- Promotes economic development and structural reform in developing countries.
- Assists developing countries through long-term financing of development projects and programs.
- Provides special financial assistance to the poorest developing countries through the International Development Association.
- Stimulates private enterprises in developing countries primarily through its affiliate, the International Finance Corporation.
- Secures most of its financial resources by borrowing on international capital markets.
- Enhances the flow of capital and technology for productive purposes to developing countries by encouraging foreign investment by providing investment insurance against non-commercial risks in developing countries.

INTERNATIONAL MONETARY FUND

Overview

As a major trading nation, Canada has a major stake in a strong international monetary system that promotes the free movement of goods, services and financial assets. The IMF is important to ensuring a sound world financial system and broad-based economic growth through assistance to countries experiencing unsustainable external imbalances and related economic difficulties.

Benefits of Membership

IMF membership provides a number of specific benefits:

- The Minister of Finance is a Governor of the Fund and elects an Executive Director to its 24-member Executive Board. This representation allows Canada to have high-level influence on decisions taken by the IMF on specific country assistance programs and major policy issues affecting the world financial system.
- The IMF, through its regular surveillance of member country economies, provides Canada with an independent source of policy advice on macroeconomic policies and engages in regular dialogue on these policies with Canadian officials at the Department of Finance, the Bank of Canada and other government agencies.
- The efforts of the IMF to ensure countries abide by their obligations, including under Fund-supported programs, help ensure that they repay Canadian bilateral loans and use our bilateral development assistance effectively.
- Canada earns a market rate of return on its financial position in the IMF.
- Were Canada ever to experience severe balance of payments difficulties, it would have the right to approach the IMF for financial assistance.

How the IMF Works

The IMF works like a credit union. It has a large pool of resources that it makes available in several ways to help members finance temporary balance of payments problems.

Members provide resources to the IMF in amounts determined by “quotas” reflecting each country’s relative importance in the world economy. A country’s quota in turn helps determine the amount of Fund resources that it may use if it experiences economic difficulties. At the end of 1999, the total quotas for the Fund’s 182 members was SDR 210.2 billion.¹

A member country uses the general resources of the IMF by making a purchase (drawing) of other members’ currencies with an equivalent amount of its own currency. A member repurchases (repays) its own currency from the IMF with other members’ currencies over a specified period of time, with interest. In this way, a member country receives credit from other members.

Members seeking financial assistance can draw on a “reserve tranche” and four “credit tranches,” each amounting to 25 per cent of their quota. For access to resources beyond the first credit tranche, the member and the IMF have to reach a mutual agreement on a set of economic measures and reforms aimed at removing the source of the country’s balance of payments difficulty and creating the conditions necessary for sustainable non-inflationary growth.

Depending on the prospective duration of the problem, these measures are agreed to as part of a Stand-By Arrangement (SBA) or an Extended Fund Facility. An SBA typically lasts 12 to 18 months while extended arrangements generally run for three years. Emergency financing for countries in crisis situations that could spill over to other countries is also available through the Supplemental Reserve Facility (SRF), created in December 1997. A precautionary line of defence is available through Contingent Credit Lines, established in February 1999, to countries that are pursuing sound policies but are nonetheless vulnerable to contagion.

Members can also use financial facilities created for specific purposes, including the Compensatory and Contingency Financing Facility, which provides financial support to members experiencing temporary export shortfalls or other unforeseen adverse external shocks.

Concessional financing to low-income developing countries under the Poverty Reduction and Growth Facility (formerly the Enhanced Structural Adjustment Facility) is made available in the form of low-interest loans with extended maturity periods.

¹ The SDR (special drawing right) is the standard unit of account for the IMF’s operations. It represents a weighted basket of five major currencies – the US dollar, the Japanese yen, the pound sterling and euro values for the German mark and the French franc. At the end of 1999, the exchange rate was SDR 1 = C\$1.99.

Canada's Priorities at the IMF

Global Economic and Financial Stability

The financial crises that have affected a number of emerging market countries since mid-1997 revealed weaknesses in the international financial system and underscored the need to reform the global financial architecture. In co-operation with its international partners, Canada has played an active role in identifying areas where reforms are required and in taking steps to implement those reforms. In their June 1999 report to Leaders at the Köln Summit, the G-7 finance ministers recommended a number of steps to strengthen the international financial system, and help reduce the risk of financial crises and make it easier to manage future crises more effectively. The finance ministers attached particular importance to reforms in the following areas:

- strengthening macroeconomic policies and financial systems in emerging markets;
- strengthening and reforming the international financial institutions (IFIs) and Arrangements;
- enhancing transparency and promoting best practices;
- strengthening financial sectors;
- improving crisis prevention and management, and involving the private sector; and
- promoting social policies to protect the poor and most vulnerable.

The IMF continues to be at the centre of efforts to reform the global financial architecture, including in the priority areas outlined in the G-7 report. The Fund's involvement, and Canada's priorities in these efforts, are described in more detail below.

Strengthening Macroeconomic Policies in Emerging Markets

The global financial crisis, which began in Asia in 1997 and then spread to Russia and Brazil in mid-1998 and early 1999, appears largely to have run its course. However, some countries remain at risk of a crisis. The potential for a resurgence of financial contagion suggests that one should not become complacent about the outlook for emerging economies, or underestimate the role of the IFIs in promoting economic reform and catalyzing other financial support to assist crisis economies.

In East Asia, several countries are now enjoying strong recoveries, having benefited from international financial assistance and the pursuit of appropriate fiscal, monetary and exchange rate policies. In particular, the strong performance of Korea and Thailand has allowed these two countries to suspend drawings on their IMF lending packages, although program reviews will continue in 2000 and a substantial reform agenda remains in

Thailand's financial sector. Indonesia, on the other hand, will likely require further assistance from bilateral donors and IFIs, as the country continues to grapple with a ballooning government debt load, very slow financial and corporate restructuring, and ongoing political/separatist tensions.

Although the devaluation of the Brazilian currency in early 1999 sparked fears of a regional financial crisis, overall Latin America in fact showed some resilience. Financial market pressures forced a few Latin American economies to abandon their currency pegs and most of the region fell into recession in 1999. However, most Latin American economies are expected to recover in 2000, aided by higher commodity prices, stronger world demand and increased capital inflows. Several economies (including Argentina, Brazil and Chile) appear to have emerged from recession in the fourth quarter of 1999. The outlook for Brazil, in particular, has brightened considerably since the abandonment of its exchange rate peg – the movement to a freely floating currency has not placed as much upward pressure on inflation as expected.

Mexico successfully weathered the Brazilian devaluation last year due in large part to the sustained implementation of prudent monetary and fiscal policies, as well as the maintenance of a flexible exchange rate regime. Recent increases in oil prices, if sustained, will continue to benefit Mexico, which is a major oil exporter. In 1999, Mexico assembled a financing package worth US\$23.7 billion, including loans from the IMF, World Bank and Inter-American Development Bank, to help guard against speculative pressures in the run-up to presidential elections in July 2000.

Other Latin American countries, however, are experiencing financial difficulties:

- Although Argentina appears to have emerged from recession, the country is faced with a large external financing requirement and is expected to conclude an agreement with the IMF on an SBA early in 2000.
- Colombia, which is in the throes of its worst recession on record, secured a US\$2.7-billion IMF Extended Fund Facility in December 1999.
- Ecuador, which defaulted on its Brady debt and euro-bonds in 1999, is in a financial crisis. Recently a new government came to power. Given the recent turmoil and the government's announced intention to dollarize its economy, negotiations with the IMF on a possible financing facility have been delayed.
- Venezuela, which is also in recession, was hit by devastating floods in December 1999 and has informally inquired about financial assistance from the IMF. Venezuela's currency (the bolivar) is generally viewed as overvalued, and economic reforms are desperately needed to reduce the large fiscal deficit.

Elsewhere in emerging markets, the IMF played an active role in providing financial assistance to help stabilize the macroeconomic situation in a number of economies:

- Turkey, which was hit by two large earthquakes in the second half of 1999, also had to address its fiscal policy and structural weaknesses. In December 1999, the IMF approved financial support totalling US\$4 billion for Turkey. The World Bank, which had already approved US\$1 billion in emergency financial assistance, has indicated it will provide an additional loan of US\$3 billion over three years beginning in early 2000, provided Turkey continues its program of economic reforms.
- Romania, faced with the risk of defaulting on its external obligations which fell due in 1999, obtained US\$547 million under an IMF SBA in August 1999.

Finally, Russia negotiated a US\$4.5-billion SBA with the IMF in July 1999. Although economic developments were generally positive throughout 1999, the program was suspended later in the year because Russia failed to achieve some of the agreed structural benchmarks. The election of a new parliament (the Duma), followed by President Boris Yeltsin's resignation in December 1999, may lead to a more co-operative relationship between the Kremlin and the Duma. However, it remains to be seen whether or not the new government led by acting President Vladimir Putin will be able to put forward a serious reform program.

IMF-Led Packages for Emerging Economies

Contributions (in billions of US dollars)

Donor	Russia	Mexico	Colombia	Turkey	Romania
IMF	4.5	4.2	2.7	4	0.5
(% quota)	(56%)	(120%)	(255%)	(300%)	(39%)
Other IFIs		8.7	4.2	4	
Bilateral		10.8			
Total	4.5	23.7	6.9	8	0.5

Note: While there were no new IMF commitments to East Asian countries in 1999, Fund disbursements to Thailand, Indonesia, Korea and the Philippines continued according to commitments made in 1997 and 1998.

Strengthening and Reforming the International Financial Institutions and Arrangements

In 1999, the international community strengthened the existing IFIs and filled in the gaps in other arrangements. In this respect, Canada was actively involved in the discussions which led to agreement in three areas to provide a more focused approach and complement the Bretton Woods framework:

- The IMF's ministerial advisory body – the Interim Committee – was revitalized by giving it permanent standing as the International Monetary and Financial Committee (IMFC). It was also agreed that the IMFC would be supported by a deputies' process to prepare for meetings and have joint sessions with the IMF/World Bank Development Committee when appropriate.
- To promote international financial stability through enhanced information exchange and international co-operation in financial market supervision and surveillance, the Financial Stability Forum was established in April 1999. The Forum is well placed to promote this objective as it regularly brings together senior officials from finance ministries, central banks and financial sector supervisory bodies from countries with significant financial centres, as well as representatives of the international supervisors, the Bank for International Settlements, the IMF and World Bank. The Forum has the role of identifying gaps in the regulation of financial systems and developing solutions to address these vulnerabilities.

The Financial Stability Forum established working groups to deal with highly leveraged institutions, offshore financial centres (OFCs) and short-term capital flows. The working group on OFCs, chaired by Canada's Superintendent of Financial Institutions, John Palmer, is evaluating the impact of OFCs on global financial stability, and the progress made by such centres in enforcing international prudential standards and in complying with cross-border information exchange agreements. The working groups are expected to report to the Forum at its next meeting in March 2000. A task force on the implementation of standards and a study group on deposit insurance were also established in 1999; the latter is chaired by the President of Canada Deposit Insurance Corporation, Jean-Pierre Sabourin.

- The Group of Twenty (G-20) was established in the fall of 1999 to ensure broader participation in discussions on international financial affairs among countries whose size or strategic importance gives them a particularly crucial role in the global economy. The G-20 consists of finance ministers and central bank governors from 19 industrialized and emerging market countries, and representatives from the European Union, the European Central Bank, and the IMF and the World Bank and their policy committees. Canada's Minister of Finance, Paul Martin, was named the first chairman of the G-20. Following the inaugural ministerial meeting in Berlin in

December 1999, Minister Martin announced that the G-20 had agreed to an agenda aimed at reducing vulnerabilities to international financial crises. The four priority areas identified are:

- a comprehensive stock-taking of progress made by all member nations in reducing vulnerabilities to crises;
- an evaluation by countries of their current compliance with international codes and standards in the areas of transparency and financial sector policy;
- the completion of Reports on Observance of Standards and Codes and Financial System Stability Assessments by the IMF with the co-operation of the World Bank; and
- an examination of differing exchange rate regimes and their role in cushioning the impact of international financial crises.

G-20 deputies will report on the items identified at the next ministerial meeting, which will be held in Canada in the autumn of 2000.

Enhancing Transparency and Promoting Best Practices

To enable market participants to make informed judgements about risks and provide greater incentives for policy makers to implement sound policies, further measures were taken to enhance transparency and promote best practices in four areas in 1999: transparency and accountability in the Fund's own operations, the provision and publication of data, the development and implementation of international standards, and governance.

Transparency and Accountability in the Fund's Own Operations

Better information on the activities of the IMF contributes to greater public understanding of the institution. For this reason, Canada has supported measures to enhance the transparency and accountability of the Fund's own operations. The Fund has responded to the concerns of members for ensuring transparency by making available significantly more information on its activities. This includes publication of country reports, increased dissemination of information on the Fund's annual consultations with member countries, and the liberalization of access to the Fund's archives. The public now has access to IMF Executive Board documents that are more than 5 years old, and other archival materials more than 20 years old. At Canada's instigation, the Fund began this year to release summaries of the IMF's work program to help increase the public's awareness of Fund activities. In addition, the Fund has adopted a policy establishing a presumption in favour of publication of Letters of Intent and other documents that underpin Fund-supported programs.

Since 1997, the IMF has released Public Information Notices (PINs), which provide background information on a member country's economy and the IMF's assessment of the country's policies and prospects. PINs are issued at the country's request following the conclusion of the Fund's regular Article IV

consultation with the member. Canada's most recent PIN was published February 18, 2000 (see <http://www.imf.org/external/np/sec/pn/2000/PN0011.HTM>). An increasing number of countries have agreed to the publication of PINs, with about 80 per cent of countries now following this procedure. The Fund is also issuing PINs on policy papers and regional economic reviews.

The Fund also encourages countries to publish the "mission statements" that are prepared at the time of the IMF's annual Article IV consultations with member countries. Prior to the preparation of the staff's report to the Executive Board, the IMF mission often provides the authorities with a statement of its preliminary findings at the conclusion of its discussions with the authorities. A number of countries, including Canada, are now releasing these statements. In addition, some 50 countries have agreed to participate in a pilot project for the voluntary release of Article IV staff reports. Canada's Article IV report was released February 18, 2000 (see <http://www.imf.org/external/pubs/cat/longres.cfm?sk&sk=3420.0>).

Canada has placed great importance on the establishment of an independent evaluation process that can impartially assess IMF activities on a regular basis. In this context, the IMF first launched, in 1997, an evaluation by independent external experts of several aspects of programs supported by the Enhanced Structural Adjustment Facility. At the urging of Canada and other countries, the IMF published the external evaluators' report and other documents related to the exercise, and broadened the process further by asking the general public to comment.

Two additional external evaluations were completed in 1999 and released to the public. One, an evaluation of the overall effectiveness of the IMF's surveillance of member countries' policies, was chaired by former Bank of Canada Governor John Crow (see <http://www.imf.org/external/pubs/ft/extev/surv/index.HTM>). The external evaluators recommended that the Fund's surveillance focus on core macroeconomic and exchange rate matters and the international aspects of a country's macroeconomic policies. The other evaluation reviewed the IMF's research activities (see <http://www.imf.org/external/pubs/ft/extev/res/index.HTM>). The external evaluators recognized the contribution of research activities to the objectives of the Fund and made a number of recommendations to improve the quality, focus and dissemination of Fund research.

Canada's representative on the Executive Board, Thomas A. Bernes, is Chairman of the Evaluation Group of IMF Executive Directors. The Group is reviewing the Fund's experience with external evaluation and intends to present a recommendation to the IMFC at its spring 2000 meeting on ways to strengthen the Fund's capacity to undertake independent evaluation of its operations, policies and programs.

In response to increased public interest in the IMF's financial position and the desire of members such as Canada for enhanced operational transparency, the Fund has since 1998 published at intervals throughout the year information on its financial resources and liquidity position, as well as information about members' financial accounts with the IMF.

Provision and Publication of Data

Following the 1995 Halifax Summit, the Fund initiated work on new data standards to better inform markets of financial and economic developments and to strengthen Fund surveillance. Countries that are capital market borrowers are now making comprehensive data available to the public on a timely basis under the IMF's Special Data Dissemination Standard (SDDS) established in April 1996. Information on the statistical practices of members subscribing to the new standard is posted on the IMF's Dissemination Standards Bulletin Board (DSBB) on the Internet (<http://dsbb.imf.org/>). Canada was one of the first countries to subscribe to the new standard, and information on Canada's statistical practices is posted on the DSBB at <http://dsbb.imf.org/country/cancats.htm>.

How to Access Information at the IMF

A vast array of Fund information – including fact sheets, press releases, speeches, *IMF Survey*, annual reports, world economic outlooks, staff country reports, and working papers – is available on the Fund's public Web site at <http://www.imf.org/>. In addition, the IMF's Publication Services provides a wide variety of Fund documents on the policies and operations of the IMF as well as world financial and economic developments:

- IMF annual reports
- *World Economic Outlook*
- *International Capital Markets*
- IMF staff country reports
- *International Financial Statistics*
- *Annual Report on Exchange Arrangements and Exchange Restrictions*
- press releases
- *IMF Survey*

Publications Services is located at 700 – 19th Street N.W., Washington, DC 20431, USA. Phone: (202) 623-7430; fax: (202) 623-7201. Internet e-mail address: publications@imf.org.

The Fund reviewed progress under the SDDS in 1999 and strengthened the standard by requiring the disclosure of additional information on international reserves on a monthly basis, with weekly disclosure of key reserve assets to be encouraged. A new data template on international reserves was developed by the Fund in co-operation with the Committee on the Global Financial System of the Group of Ten (G-10) central banks. The template covers information on the amount and composition of reserve assets, other foreign assets held by the central bank and the government, short-term foreign

liabilities, and related activities that can lead to demand on reserves (such as financial derivatives positions and guarantees extended by the government for private borrowing). The transition period for providing the information required by the template expires at the end of March 2000. In July 1999, Canada became one of the first countries to disseminate the additional data required by the expanded standard. Moreover, Canada currently exceeds the reporting standard by releasing key data on its international reserves on a weekly basis.

Standards

The Fund is also contributing to the development and dissemination of international standards in other areas. In 1998, the Fund adopted a Code of Good Practices on Fiscal Transparency to guide member countries in enhancing the accountability and credibility of fiscal policy. In 1999, the Fund adopted a similar code with respect to monetary and financial policies. Also in 1999, the Basle Committee on Banking Supervision, with input from the IMF and World Bank, prepared a draft handbook to help countries in implementing the Basle Core Principles for Effective Bank Supervision. To keep track of the standards that are being established, the Financial Stability Forum developed a prototype compendium of standards and best practices.

Work also progressed over the past year on how Fund surveillance could contribute to monitoring and encouraging implementation of the internationally agreed codes and standards. It was agreed that this surveillance by the Fund should be carried out on a modular basis covering a wide range of standards and codes, with the Fund responsible for its core areas of expertise, and other institutions, such as the World Bank, Organisation for Economic Co-operation and Development and Basle Committee, taking responsibility for other areas. Canada and the other G-7 countries have proposed that the Fund incorporate the monitoring of standards into its Article IV process, building on input from other institutions as necessary. The IMF has also prepared experimental country case studies – the Reports on Observance of Standards and Codes – that summarize individual countries' compliance with the various international codes and standards.

Governance

One of Canada's priorities is the promotion of good governance, transparency and accountability in IMF member countries. The Fund adopted guidelines in 1997 on its role in issues of governance and is more actively emphasizing the links between poor governance and weak economic performance. In support of this role, the Fund is delaying or suspending financial support until countries have taken appropriate corrective action. In the past year, Canada continued to encourage the Fund to work with member countries to improve the quality of government expenditures by reducing outlays for unproductive purposes, such as costly military budgets, thereby making room for productive spending on primary health care and basic education, for example. In this context,

the Fund's Executive Board encouraged Kenya in 1999 to reinforce earlier measures to enhance accountability, strengthen budget planning and execution, and remove incentives for corruption by implementing a comprehensive work plan of further measures to enhance governance.

Strengthening Financial Sectors

Increasingly, the IMF is paying greater attention to financial sector issues. The Fund is contributing to the development and dissemination of international principles and good practices of sound financial systems, strengthening its surveillance of countries' financial systems and, in conjunction with the World Bank, supporting structural reforms in financial sectors. While the Fund works closely with other international institutions and groups on financial sector issues, its co-operation with the World Bank in the past year led to an improvement in the identification of potential vulnerabilities in countries' financial systems. This co-operation is described more extensively in the "Joint Issues" section.

An important lesson from the recent financial crises in emerging market countries is that the opening of the capital account must be carried out in an orderly and well-sequenced manner. In particular, countries with weak, underdeveloped or poorly regulated financial markets are highly vulnerable to the risks associated with open capital flows. To this end, Canada has called for the IMF to play an expanded role in this area by developing a practical guide, or "roadmap", for safe capital liberalization in developing countries. The objective would be to codify best practices and spell out appropriate policies for countries at different stages of development.

In this regard, the Fund reviewed in 1999 the experience of selected countries with the use or removal of capital controls. The review suggests that, in some circumstances, controls can play a useful role in helping countries shield themselves from financial crises. Controls, however, are not a substitute for sound economic policies and prudential supervision of the financial sector. Moreover, capital controls may lose effectiveness over time as market participants find ways to circumvent the controls.

Improving Crisis Prevention and Involving the Private Sector

The recent crises in emerging markets have led to a consensus among international policy makers that private investors need to be involved to a greater degree in crisis prevention and resolution. Canada attaches considerable importance to this issue. The international financial architecture needs to be adapted to reflect today's world of large-scale private capital flows. To date, the international community has generally relied upon significant financial assistance from the official sector, led by the IMF, to address balance of payments problems caused by large capital outflows. However, this approach to crisis resolution is neither sustainable, given that

the scale of private capital flows dwarf the resources of the official sector, nor desirable, since it may distort the assessment of risk in international markets and encourage excessive and imprudent capital flows to emerging market economies.

Over the past two years, Canada has therefore advocated a more comprehensive approach to crisis prevention and resolution that involves the private sector more actively in the process. The IMF has an important role to play in establishing an operational framework for improved private sector involvement in this area. This reflects the IMF's position at the centre of the international financial system and, more importantly, the fact that it has a number of mechanisms at its disposal that could facilitate a more orderly and co-operative resolution to international payment problems. The principles and modalities of private sector involvement were discussed on a number of occasions by the IMF Executive Board in 1999, and further progress on developing an operational framework for its application is expected in the spring of 2000.

Promoting Social Policies to Protect the Poor and Most Vulnerable

Canada places a high priority on efforts to better protect the poor and most vulnerable from the burden of adjustment. In conjunction with the enhanced debt reduction scheme for heavily indebted poor countries, and as part of its contribution to the global anti-poverty effort, the IMF replaced its concessional facility, the Enhanced Structural Adjustment Facility, with the more focused Poverty Reduction and Growth Facility (PRGF) in 1999. As a consequence, direct anti-poverty measures will play a central role in programs supported by the IMF, World Bank and other lenders. To finance its participation in the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and continue its assistance to the poorest countries under the PRGF, the Fund in 1999 began implementing a series of measures, including off-market gold sales, to generate the necessary resources. The Fund's role in this area is covered more extensively in the "Joint Issues" section and in the World Bank report.

Lending Developments in 1999

A core activity of the Fund is to provide short- and medium-term financial assistance to members faced with balance of payments difficulties. The objective is to enable countries facing such difficulties to correct temporary payments imbalances with a minimum of disruption to the international monetary system. The provision of financing from the IMF, and the additional financing that an arrangement with the Fund often attracts from other sources, enables countries to undertake smoother economic adjustment.

IMF Off-Market Gold Sales

At the annual meetings in September 1999, IMF Governors endorsed a financing package involving internal transfers, bilateral contributions and off-market gold sales to generate resources to meet the Fund's debt relief costs and to continue its assistance to the poorest countries under the PRGF – about US\$3.5 billion.

In December 1999, the Fund's Board approved off-market sales of up to 14 million ounces of its gold reserves and a number of other measures which will ensure full financing for the IMF's participation in the HIPC Initiative and the PRGF. The investment income from the profits generated by the gold transactions will be used to provide debt relief under the HIPC Initiative. The Fund expects to complete its off-market operations in the spring of 2000. None of the IMF gold involved in these transactions will be sold on the open market. Therefore, the off-market sales will have no effect on the world gold market.

At the end of 1999, the IMF had lending arrangements worth SDR 57.6 billion in place for 57 member countries (see Annex 1). Drawings by these countries in 1999 decreased to SDR 10.8 billion as some member countries recovered from the severe crises that affected their economies in 1998. While lending decreased under all facilities in 1999, several members received large drawings during the year. Brazil received the largest disbursement, drawing SDR 3.6 billion under the Supplemental Reserve Facility (SRF), the Fund's short-term lending facility that addresses crisis situations, and SDR 0.8 billion under a Stand-By Arrangement. Mexico received the largest amount under a stand-by – SDR 1.0 billion. Repurchases (repayments) exceeded purchases in 1999, in large part due to repayments related to the large disbursements made in 1998 under the SRF.

Table 1

IMF Resource Flows

	1998	1999
	(in SDR billions)	
Total purchases	21.5	10.8
Of which:		
Stand-By Arrangements	12.1	7.5
Extended Fund Facility	6.3	1.9
Compensatory and Contingency Financing Facility	2.2	0.7
Poverty Reduction and Growth Facility	0.9	0.7
Total repurchases	6.7	19.4
Net purchases	14.8	-8.6

Indonesia's drawings of SDR 1.0 billion dominated disbursements under the Extended Fund Facility in 1999.

No countries made use of two new facilities established in 1999: the Contingent Credit Lines to help countries avoid financial contagion, and a temporary Y2K facility that went unutilized because anticipated date-change difficulties did not materialize.

Lending decreased slightly under the IMF's concessional facility, the PRGF. Pakistan and Algeria accounted for a large share of the SDR 0.7 billion disbursed under the Compensatory and Contingency Financing Facility, one of the Fund's other special-purpose facilities which was recently streamlined and rationalized.

Managing Canada's Interests at the IMF

The Minister of Finance is Canada's Governor at the IMF and is responsible for the management of Canadian interests at the Fund. The Minister exercises influence on IMF issues through Canada's Executive Director at the Fund's Executive Board, interventions at the spring and fall meetings of the IMFC, his plenary speech at the IMF and World Bank annual meetings, and periodic meetings with the Managing Director of the Fund (the Minister's speeches are available on the Department of Finance Web site at <http://www.fin.gc.ca/>). The Governor of the Bank of Canada, Gordon Thiessen, is Canada's Alternate Governor of the IMF. The Governor also attends the Fund's spring and fall meetings.

The management of Canada's interests in the ongoing work of the IMF is the responsibility of the Executive Director, Thomas A. Bernes, Canada's representative on the Executive Board. He is one of 24 Executive Directors. In addition to Canada, he represents 11 other countries (Ireland and 10 Caribbean countries), which form a constituency at the Executive Board. Of the 24 members of the current Executive Board, 12 are from developing or transition countries and 12 from industrial countries. As the main decision-making body of the Fund, the Board normally meets three times a week.

The Department of Finance co-ordinates Canadian policy advice on IMF issues and Canada's operational interests in the IMF. The Bank of Canada also works closely with the Department of Finance in providing advice on issues of interest to Canada's Executive Director. Other government organizations include the Department of Foreign Affairs and International Trade and the Canadian International Development Agency. Within the Department of Finance, the International Finance and Economic Analysis Division is specifically responsible for conducting analyses and preparing advice on the policy issues and specific country programs that are brought before the Executive Board. The Department and Canada's Executive Director's office also work closely with Canada's World Bank Executive Director's office and meet frequently with Canadian non-governmental organizations.

Parliament is informed of the activities and operations of the Bretton Woods institutions through the tabling of the annual report on their operations, the communiqués of the Interim and Development committees and appearances of the Canadian Executive Directors and departmental officials before parliamentary committees.

Canada's Voting Record

Since most decisions at the Fund are taken on a consensus basis, formal votes by Governors and the Executive Board are rare. Canada attempts to influence the development of Fund policy proposals before they are brought to the Board (often through the circulation of memoranda outlining Canadian positions) or to influence other members in the course of Board discussions. But in 1999 Canada voted against an increase in the remuneration of IMF Executive Directors and abstained on the vote to increase IMF staff salaries.

Canada's Office at the IMF

In addition to the Executive Director, Canada's office is staffed by two Canadian advisors and a technical assistant. Ireland staffs the Alternate Director's position and the Caribbean countries staff a second advisor's position.

The primary responsibility of the Executive Director's Office is to represent the interests of Canada and the other members of the constituency at the Fund's Executive Board. The office participates in the Board's discussions of a wide variety of policy, operational and administrative matters, including surveillance issues and country assistance requests and reviews.

Canadian Members of the Executive Director's Office

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Canada's Financial Participation

Canada's financial participation in the IMF consists primarily of its quota subscription. Canada's quota following the recent increase, associated with the coming into effect of the Eleventh Review, is SDR 6,369.2 million, or about 3 per cent of total quotas. Canada's quota subscription is a government asset, which is made available to the Fund partly in Canadian dollars and partly in reserve currencies, such as US dollars or SDRs. These latter non-Canadian dollar amounts continue to be part of Canada's foreign exchange reserves. As an asset, Canada's quota subscription is not recorded as an expenditure item in the budget of the Canadian government.

Only a tiny portion of the Canadian dollar part of its subscription is actually held in cash by the IMF. The balance is held by the Bank of Canada in the form of demand notes, which are available to the Fund in the event it needs to draw upon additional resources. Canada earns interest on its quota subscription when the Canadian dollar is used in Fund lending operations, i.e., drawn by other member countries. In 1999, Canada received SDR 56.2 million on its net creditor position in the IMF. In addition, Canada received SDR 2.4 million in interest on General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB) lending to the IMF (additional information on this lending is provided below). The net income from Canada's net creditor position with the Fund is paid into the Government of Canada's Exchange Fund Account, adding to the foreign exchange reserves.

Table 2

Canada's Financial Position in the IMF

	December 31, 1999	December 31, 1998
	(in SDR millions)	
Quota	6,369.2	4,320.3
Fund holdings of Canadian dollars	4,061.3 ¹	2,892.1 ¹
Reserve position in the Fund	2,307.9 ²	1,428.2 ²

¹ In accordance with Fund regulations, at least 0.25 per cent of Canada's quota is held by the IMF in a Canadian dollar cash deposit at the Bank of Canada. The Fund's remaining Canadian dollar holdings are in the form of non-interest-bearing demand notes, also kept by the Bank of Canada.

² This is the amount Canada is entitled to draw on demand from the IMF for balance of payments purposes. Canada's reserve position in the Fund is the result of the portion of Canada's quota subscription made available to the Fund over time in reserve currencies, the use of the Canadian dollar in Fund financial transactions with other members, and loans to the IMF under borrowing arrangements such as the GAB and NAB. As the name suggests, Canada's reserve position in the Fund is a part of Canada's official foreign exchange reserves.

Special Drawing Rights

- The special drawing right (SDR) is an international reserve asset created by the IMF and allocated periodically to its members as a supplement to their foreign currency and gold reserves.
- A general SDR allocation requires a determination by the IMF Board of Governors that there is a global need to supplement existing reserve assets.
- SDRs were first allocated to members in 1970. There have been two other general allocations, the most recent undertaken in 1981. The outstanding stock of SDRs currently totals SDR 21.4 billion.
- In September 1997, IMF Governors approved a special one-time allocation of SDR 21.4 billion that will ensure that all members receive an equitable share of cumulative SDR allocations (the amendment to ratify the allocation has not yet been accepted by a sufficient majority of members).
- Canada has received allocations totalling SDR 779.3 million. Following the special one-time allocation, Canada's allocations will increase to SDR 1,266.5 million.

At the end of the year, Canada's holdings of SDRs amounted to SDR 383.8 million, or 49.2 per cent of Canada's cumulative allocation of SDRs. In 1999, largely due to the payment of one quarter of the increase in its IMF quota in SDRs, Canada held SDRs in an amount lesser than its allocation, and so paid net interest of SDR 10.3 million.²

The Second Special Contingency Account (SCA-2) was established by the IMF in 1990 to safeguard against potential losses arising from follow-up financial arrangements with countries that successfully completed a rights accumulation program and cleared their arrears to the Fund. The SCA-2 was financed over a period of years jointly by IMF creditors through lower interest earnings and debtor countries who paid higher rates of charge. Since the balances in the SCA-2 were no longer required, the IMF refunded them in late 1999 to contributing countries such as Canada, which received SDR 11.2 million.

Last year, in line with earlier commitments, Canada made further contributions to the IMF's Poverty Reduction and Growth Facility (PRGF), formerly the Enhanced Structural Adjustment Facility. The facility provides financial support on concessional terms to low-income countries facing protracted balance of payments problems. Canada's commitment to the PRGF is a loan of SDR 500 million and a grant of approximately SDR 190 million. In March 1999, the Government announced that Canada intended to commit an additional SDR 200 million of new lending to the facility. At the end of 1999, loan payments under these arrangements totalled SDR 460 million of the SDR 500 million (to be SDR 700 million) and subsidy contributions equalled SDR 128.6 million of the SDR 190 million.

² When a member's holdings of SDRs is greater (lesser) than its cumulative allocation, that member (the Fund) receives interest on the difference.

Canada is also a participant in the GAB, the credit arrangement established by the G-10 to supplement the Fund's regular resources in the event of financial crises. Canada's GAB commitment is the equivalent of SDR 892.5 million. This line of credit was not used in 1999. As noted above, Canada is also a participant in the NAB, which was not activated in 1999. Previous GAB and NAB loans were repaid by the IMF to Canada in March 1999.

New Arrangements to Borrow

The following are the main features of the NAB, which came into force in 1998:

- Participating countries will make loans to the IMF when supplementary resources are needed to forestall or cope with an impairment of the international monetary system, or deal with an exceptional situation that poses a threat to the stability of the system.
- Twenty-five countries have agreed to lend up to SDR 34 billion (about C\$68 billion) to the Fund in the case of financial emergencies.
- Canada's share in the arrangement is 4.1 per cent, in the form of a commitment to provide non-budgetary loans to the IMF from its international reserves.
- The NAB does not replace the GAB, which will remain in force. However, the NAB will be the first and principal recourse of the IMF in the event of a need for supplementary resources.

Challenges Ahead

A key challenge for the Fund is to ensure that its mission meets the needs of an increasingly integrated global economic system. Over the years, the institution has proved to be very adaptable, and the evolution of the Fund's place in the international financial system must continue to reflect changes in the world economy. In particular, there is a need to assess the role of the Fund in a world of large-scale private capital flows. To meet these challenges:

- The IMF should examine how it can reorient its surveillance activities to better foresee, prevent and respond to liquidity and confidence crises of the type that have recently affected a number of emerging market countries. This should include broadening the scope of these activities to include *inter alia* external debt management, the appropriateness of exchange rate regimes, compliance with standards and codes, and financial sector regulation and supervision. The Fund has a key role to play in encouraging "best practices" and monitoring compliance in these areas.
- The Fund also needs to consider ways of ensuring that its lending programs do not distort the private sector's assessment of risk and return in international investment. The Fund may also have a role in providing both the incentives and mechanisms to facilitate orderly workouts among international debtors and creditors.

THE WORLD BANK

Overview

Membership in the World Bank affords Canada an important voice on key development issues in the world's premier multilateral development bank. With 181 members and loans and credits to 86 developing member countries in fiscal year (FY) 1999, the World Bank has a far-reaching impact on global development. It assists members, both developing countries and countries in transition from planned to market economies, by providing concessional assistance and access to world financial markets for development purposes. In addition, it advises on policy issues crucial to improving members' longer-term development and poverty reduction prospects. In over 50 years of existence, the World Bank has provided more than US\$450 billion in loans to the developing world (see Annex 3).

In FY 1999 alone, the World Bank committed loans and credits of about US\$29.0 billion to these countries (see Annex 2), slightly above the FY 1998 total of US\$28.6 billion. East Asia received a third of this lending (US\$9.7 billion), while Latin America received 28 per cent (US\$7.7 billion). Over the past two years, Bank support has reflected the large needs of countries recovering from financial crisis. In the case of Russia, however, the collapse of the banking system and the ongoing economic and political crises have slowed down disbursements considerably. Africa and South Asia relied heavily on support through the Bank's concessional lending facility, the International Development Association (IDA). Together, these two regions received close to 60 per cent of total IDA lending, which was largely focused on poverty reduction. The continuing sanctions on India and Pakistan in the aftermath of nuclear testing have affected the Bank's lending program. Bank lending is limited to those projects that address basic human needs.

Many of the Bank's members continue to face a tremendous challenge in raising the living standards of their populations. The Bank's support has been crucial in transforming a number of countries from dependence towards greater self-reliance. Where countries have established an appropriate enabling environment, private capital can play an important role in helping to finance future growth. The World Bank continues to play an important catalytic role in encouraging the use of private capital for development.

How the World Bank Group Works

The World Bank Group is made up of four complementary but distinct entities: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA) and the International Finance Corporation (IFC).

The IBRD and IDA (together commonly known as the World Bank) both provide funding for investment projects and for adjustment – or economic reform – operations. The IBRD lends funds on commercial terms (slightly above the market interest rate) to the better-off borrowing members, while IDA provides interest-free credits to the poorest borrowers. The IBRD gets its funds primarily from borrowing on international markets, on the basis of its triple-A credit rating. In effect, the IBRD on-lends to borrowing countries at a rate of interest much lower than that which they could secure on their own borrowings. IDA, on the other hand, receives grant funding from donors and other sources, including World Bank net income. As of June 1999, the outstanding IBRD loans and IDA credits amounted to US\$117.2 billion and US\$83.2 billion, respectively.

The IFC supplements the activities of the IBRD and IDA by undertaking investments on commercial terms in productive private sector enterprises. The IFC provides such services as direct private sector loans, equity investments, resource mobilization and technical assistance. As of June 1999, the total outstanding loans and equity investment of the IFC were equivalent to US\$10 billion. MIGA's mandate complements that of the IFC: it promotes private foreign direct investment in developing countries, primarily by providing insurance against non-commercial risk, such as the risk of currency inconvertibility during civil conflict. MIGA's outstanding guarantees as of June 1999 amounted to US\$3.7 billion.

Benefits of Membership

- Canada's voting share of about 3 per cent in the World Bank gives it a seat on the Bank's 24-member Executive Board and on the joint IMF/World Bank Development Committee. Canada has the opportunity, both at the Executive Board and in discussions with Bank staff, to provide direct input into the formulation of Bank policies and operational decisions. Canada and other shareholders help to guide the Bank in improving developing countries' economic, social and environmental performance.
- Participation in the Bank affords an opportunity to influence international development policy issues of concern to Canadians. Canada was a leading voice at the Board of Directors' discussions in 1999 that led to the enhanced Heavily Indebted Poor Country (HIPC) Initiative, as well as at the policy discussions that led to establishing a closer link between the HIPC debt initiative and poverty reduction goals.
- Canada benefits from the Bank's leadership role in bringing together donors to respond quickly to emergency situations in countries in post-conflict situations. The World Bank also provides Canada with a forum for working together with other donors to establish a common position to deal with the financial crises of emerging markets. In the context of the Middle East peace process, Canada has been closely involved with the Bank's efforts to mobilize resources for the West Bank and Gaza. Through such co-operation, Canada's influence in the developing world can be leveraged beyond what could be achieved through its bilateral programs. Canada also took part in mobilizing assistance to Kosovo.
- Canada benefits from the role the World Bank plays in bringing together donors for consultative groups (CGs) to provide assistance to specific countries in need. Through CGs, donor countries are able to better co-ordinate their policy advice and operational programs to provide more coherent advice to borrowers and to maximize the impact of their operations. Last year, the World Bank participated in 38 separate CGs and donor groups. The Canadian International Development Agency (CIDA) and other donors also benefit from the Bank's co-ordination of major international programs, such as the Strategic Partnership With Africa (SPA) and the Global Environment Facility (GEF). This co-ordination process is being enhanced now through the new Poverty Reduction Strategy Papers and the Comprehensive Development Framework of the Bank.
- The Canadian government draws heavily on the Bank's research and policy work to enrich its understanding of international development. A wide variety of CIDA programs also benefit significantly from direct access to Bank staff and expertise.
- Finally, Canadian companies and individuals enjoy substantial procurement benefits from Canada's membership in the World Bank Group. Disbursements in FY 1999 for Canadian goods and services totalled US\$243 million, bringing total cumulative disbursements to more than US\$3.8 billion.

In the Wake of the Emerging Market Financial Crisis

The global financial crisis that struck Asia in 1997 and then swiftly spread to other emerging market economies, including Brazil and Russia, appears to be abating. In Asia there are signs of strong economic recovery: growth rates are positive for the first time since the onset of the crisis, inflation rates are down to moderate levels, interest rates are far below the peaks experienced in 1997 and 1998, and exports are expanding. In 2000, Latin America is expected to recover from the deep but short-lived crisis, while the worst seems to be over for Russia.

The crisis pushed large segments of population of the affected countries into poverty, particularly in East Asia, Brazil and Russia. Moreover, in East Asia, the crisis has produced millions of new poor, partially reversing two decades of progress made in poverty reduction. All affected countries have been hit by falling incomes, rising absolute poverty and malnutrition, declining public services, threats to educational and health status, increasing vulnerabilities among women and children, and growing crime and violence. The crisis has also left a formidable agenda of institutional and governance reforms. They include strengthening domestic financial sectors, restructuring corporate governance and improving public sector transparency and accountability. In response, the Bank has intensified its support in FY 1999 to address these issues.

The long-term growth prospects for developing countries as a whole do not seem to be favourable. The World Bank predicts that growth in developing countries from 2002 to 2008 is likely to be lower than in the early 1990s, before the emerging market financial crisis erupted. This may retard the urgent progress needed on the poverty reduction front. In fact, the global financial crisis has effectively halted the progress made in poverty reduction during the 1990s. No progress has been made since 1996 in reducing the number of people living in poverty in the developing regions. In Sub-Saharan Africa, Latin America and the Caribbean reductions in poverty appear to remain below the target adopted by the international community to reduce by half the proportion of people living in extreme poverty by 2015.

The demand for Bank resources has increased as a result of the contraction of private capital flows to developing countries. Even though the worst of the financial crisis appears to be over, the recovery of private capital flows has been slower than expected. Gross private flows to developing countries in 1999 were almost a third lower than in 1998. This contraction, coupled with a declining trend in transfers from bilateral Official Development Assistance agencies, increased demand for World Bank financing considerably in FY 1999 (July 1, 1998-June 30, 1999). Demand has been particularly high for adjustment lending,³ which has been the principal vehicle for the delivery

³ An "adjustment loan" is a rapidly disbursing lending instrument used by the Bank to provide support for a government's structural reform program. The bulk of the Bank's total lending operations, however, are in the form of "investment loans," which are disbursed over the medium- to long-term implementation periods of specific development projects.

of Bank assistance to crisis-affected economies. These loans have been supporting economic reform and measures to address poverty. Adjustment lending as a share of total IDA and IBRD lending operations increased in FY 1999 to 53 per cent, compared to 39 per cent in FY 1998 and 26.5 per cent in FY 1997. Nearly 70 per cent of adjustment lending for FY 1999 was poverty-focused, reflecting the Bank's strong emphasis on reducing the short- and long-term effects of crises on the poor.

Reducing Poverty

The unexpected nature and depth of the recent financial crisis and its serious impact on social conditions have brought to light the need for more work to prevent crises when possible and to mitigate the social consequences when they occur. This calls for a development framework that recognizes the importance of macroeconomic fundamentals, but at the same time gives equal weight to institutional, social and structural underpinnings. FY 1999 saw the Bank taking important steps to move beyond simply financing projects and supporting only discrete policy reforms, to addressing broader issues such as human and social development, governance and institutions. Mindful of the challenges of this new approach, the Bank is working with developing countries to pilot a more inclusive and more integrated approach to its development mission. The approach, known as the Comprehensive Development Framework (CDF), calls for a development strategy "owned" by the country itself, focused on a long-term vision of the results to be achieved, and supported by strong partnerships among governments, donors, civil society, the private sector and other development actors. In FY 1999, the Bank launched CDF pilot projects in 11 countries⁴ and the West Bank and Gaza, where stakeholders engaged in an active dialogue in order to identify development challenges, analyze ways to improve development effectiveness, and strengthen partnerships.

Both as a means of providing central policy focus for the CDF, and of increasing the link between heavily indebted poor country (HIPC) debt relief and poverty reduction, the Bank proposed, with strong support from Canada, that country-specific poverty frameworks be developed and articulated via new Poverty Reduction Strategy Papers (PRSPs). In December 1999, the Executive Boards of the IMF and World Bank endorsed the adoption of the PRSPs.

The key principles underlying the framework are that poverty reduction strategies should be country-driven, oriented to achieving concrete results in terms of poverty reduction, comprehensive in looking at cross-sectoral determinants of poverty outcomes and informed by a long-term perspective, and should provide the context for co-ordinated action by various

⁴ The CDF pilots are underway in Bolivia, Côte d'Ivoire, Dominican Republic, Eritrea, Ethiopia, Ghana, Kyrgyz Republic, Morocco, Romania, Uganda and Vietnam.

development partners. The PRSPs will be formulated by national authorities in broad consultation with civil society and other stakeholders. They will describe and diagnose poverty conditions in countries and present a medium-term action plan to reduce poverty and generate more rapid economic growth. In many cases, as in Uganda (see below), the PRSPs will be built on national poverty reduction plans already being designed and implemented by a country.

Poverty Reduction in Uganda

In June 1997, Uganda launched its Poverty Eradication Action Plan (PEAP) following a national consultation process involving a cross-section of stakeholders (central and local governments, civil society and the private sector). The PEAP is a good model of what a PRSP would look like. The PEAP lays down national priorities for poverty reduction and guides sector policies. Extensive consultations with civil society have revealed that public action is critical in providing clean water, addressing difficulties faced by small-scale farmers, enhancing human security and strengthening governance.

In 1998-99, the government adopted a medium-term budget framework that is consistent with the PEAP and medium-term financial stability. The Ministry of Finance and other ministries worked closely with local governments in determining budgetary allocations. Civil society participated in the dialogue on priorities and spending commitments.

The government also established a Poverty Action Fund (PAF) to enhance transparency and the monitoring of donor resources. The Fund has four critical features: it involves civil society in the selection of programs and projects, it is fully integrated in the budget, it allocates 5 per cent of funds to monitoring, and it involves both civil society and government in monitoring the impact of PAF outlays. In order to monitor the process closely, the amounts disbursed to each district from the Fund are advertised in the press. In the education sector, for example, budget allocations for schools are posted on some school notice boards. Civil society (non-governmental organizations, district officials, parliamentarians and the media) meet quarterly with central government officials to discuss delivery against budget allocations. In just the first year of operation of the PEAP, Uganda's social expenditures increased substantially from 5.1 per cent of gross domestic product in 1997-98 to 6.1 per cent in 1998-99. This happened against a backdrop of a decline in donor support. Uganda has also intensified its fight against corruption. In 1998-99, the anti-corruption agency initiated a number of high profile investigations, which have led to the dismissal of senior officials and criminal prosecution.

First, the PRSPs will be undertaken for some of the HIPC countries and then introduced gradually to all low-income countries that are eligible for concessional funding from the World Bank and the IMF. Several HIPC countries, including Uganda, Ghana and Burkina Faso have made progress in developing their own poverty reduction strategies. The PRSPs are intended to provide a framework for assistance from the international financial institutions (IFIs) and bilateral donors; as such, the success depends very much on the enhanced co-operation and co-ordination of various players.

Improving Co-ordination With Other Agencies

In 1998, at the request of shareholding governments, the Bank and the IMF undertook a frank assessment of their joint work and developed substantive measures to improve mutual co-operation. These measures, which are now being implemented, include a better delineation of responsibilities between the institutions and the establishment of a senior management Liaison Committee charged with enhancing joint Bank/Fund work with relevant international supervisory agencies. Through these closer links, the IMF has been able to benefit from the experience of the Bank in assessing the longer-term development impact of its own structural adjustment lending. Collaboration between the Bank and Fund has been particularly close in critical financial sector work. They are also working closely with governments to develop and implement a debt relief program for HIPC countries. These activities are described in detail in the “Joint Issues” section.

Over the past year, the World Bank also has worked to deepen its partnerships with regional development banks and other multilateral agencies (including the World Trade Organization (WTO) and the United Nations Conference on Trade and Development) as well as with bilateral agencies.

- A tripartite consultation mechanism involving the Bank, the IMF and the Asian Development Bank has been established to co-ordinate programs in Asian crisis economies.
- In a move to enhance World Bank and UN co-ordination, the two organizations recently formed the “Philadelphia Group” (symbolic of the fact that Philadelphia is halfway between Washington and New York) to share views and work programs in the areas of common interest, such as social policy, poverty reduction and governance.
- The Bank, in partnership with the IMF, the WTO and several UN organizations, has created an integrated framework to help least developed countries to effectively participate in the international trading system.

Other World Bank Operations in FY 1999

A) Helping Institutional and Governance Reforms

Strong institutions and good governance are necessary to reduce country vulnerability to crises. They also encourage private investment and promote economic growth and poverty reduction. With its adjustment loans and technical assistance projects, the Bank is supporting various public sector reforms that are targeted towards improving governance by enhancing public accountability and transparency of government agencies. The Bank also provides governments with advice on the drafting of governance-related laws, including legislation to combat corruption. This work is being supported by extensive Bank analysis of budgetary processes and institutional effectiveness. In Indonesia, for example, the Bank is working with the government and representatives of civil society to develop a comprehensive public sector anti-corruption strategy.

With respect to the corporate sector, the Bank is assisting governments in developing corporate restructuring and bankruptcy frameworks and stronger competition policy as well as corporate governance and legal reforms. In co-operation with the IMF, the Bank has intensified its support of financial sector reforms in FY 1999. Having increased the number of in-house experts by 50, the Bank supported governments in improving financial sector supervision and regulation, developing capital markets and training domestic regulators. The financial sector's share of total adjustment lending amounted to about 13 per cent in FY 1999. Moreover, the Bank approved 18 stand-alone projects worth US\$2.87 billion for financial sector reforms.

The Toronto Centre

Recognizing the need to strengthen financial sector regulation and supervision in crisis economies, in 1997 the Government of Canada and the World Bank announced the creation of the Toronto International Leadership Centre for Financial Sector Supervision. The Toronto Centre provides experience-based training for senior financial supervisors and regulators in emerging markets. It focuses on the leadership dimension of the supervisory function, offering pragmatic programs based on the premise that experience is the best teacher. Canadian funding for the Toronto Centre is provided by the Canadian International Development Agency. Several Canadian banks (Canadian Imperial Bank of Commerce, The Bank of Nova Scotia, Royal Bank of Canada and The Toronto-Dominion Bank) provided funding to the Toronto Centre in FY 1999, while the IMF and the Bank for International Settlements have committed financial support. The World Bank continued to provide financial assistance to the Centre in FY 1999. The Schulich School of Business at York University is hosting the institution.

The Toronto Centre successfully completed four courses on banking supervision during 1999; there was an excellent roster of candidates for these sessions. The candidates have been at senior levels, generally reporting to the governor or deputy governor of their respective central banks. The Toronto Centre will branch out in the coming year, providing one course on securities and another on insurance, along with three courses on banking supervision. In February 2000, David Winfield, who brings a wide range of experience in international trade issues from his distinguished career as a diplomat, replaced Paul Cantor as the new Executive Director of the Centre.

The World Bank has set up a Web site for the Toronto Centre at <http://www.worldbank.org/html/fpd/tc>.

B) Post-Conflict and Emergency Assistance

In 1999, the Bank provided substantive emergency assistance to countries that were devastated by war and natural disasters. In countries emerging from conflicts, the Bank's support is designed to facilitate their transition to peace. The Bank helps post-conflict countries to rebuild physical infrastructure, reconstruct institutional capacity and put in place key economic reforms. In FY 1999 the Bank, in collaboration with the IMF and other donors, including Canada, moved rapidly to organize emergency financial assistance to the countries affected by the Kosovo crisis. Similar efforts are under way in East Timor.

The Bank Assists Regions Recovering From Conflicts

Kosovo: At the Interim and Development Committee meetings in April 1999, finance and development ministers asked the Bank, working in co-operation with the Commission of the European Union, to co-ordinate the international effort to assist countries affected by the Kosovo crisis. The Bank, in collaboration with other multilateral and bilateral agencies, organized international donors' conferences for various affected countries in southeastern Europe as well as for Kosovo itself. The Bank's post-conflict support seeks to promote economic recovery, address social sector needs, rebuild physical and social infrastructures and reconstruct institutional capacity in the region. The Bank is working closely with the Stability Pact for South East Europe in analyzing various reconstruction initiatives.

Kosovo, a sub-federal entity within the Federal Republic of Yugoslavia – which is not a member state of the World Bank – presented a special case for Bank operations. While Kosovo is ineligible for regular International Development Association or International Bank for Reconstruction and Development funding, the Bank established a special US\$25-million trust fund from the Bank's FY 1999 net income to fund its capacity- and institution-building work in Kosovo. Part of this funding will support the work of the United Nations Mission in Kosovo to establish a civil administration. It is anticipated that in 2000 the trust fund will receive a further net income allocation of a similar magnitude.

East Timor: The World Bank has taken a leading role in co-ordinating the international effort to assist East Timor. In the late fall of 1999, the Bank, working closely with the United Nations Transitional Administration in East Timor, led a mission to the nascent country to assess reconstruction and development needs. The Bank's conclusions formed the basis for an international meeting of donors in December at which delegates pledged a total of US\$523.5 million in assistance. Just prior to this meeting, the World Bank Executive Directors endorsed the establishment of a special US\$10-million trust fund (financed from World Bank resources) to support development and reconstruction in East Timor. Executive Directors also approved a grant of US\$1 million from the Bank's Post-Conflict Fund as bridge financing until the trust fund monies became available.

The Bank also moved swiftly when one of the worst floods in its history hit Bangladesh in 1998. Through a US\$200-million emergency flood recovery credit, the Bank helped in maintaining macroeconomic stability, repairing damaged infrastructure facilities and strengthening the country's capacity for disaster preparedness and management. Similarly, the Bank responded quickly in the face of devastating floods in western Turkey and the earthquake damage in its Adana region with emergency assistance through the US\$369-million Emergency Flood and Earthquake Recovery Project, which aims to restore basic infrastructure in affected communities and rural areas.

C) Assisting Small States

Small developing economies face special challenges due to their small size: they lack institutional capacity, have difficulty attaining economies of scale in production and have limited capacity to diversify risk within the domestic economy. Moreover, most of them are highly vulnerable to natural disasters and commodity price volatility in international markets. The loss of some preferential trading arrangements has further exacerbated their vulnerabilities. Recognizing these difficulties, the Bank, together with the Commonwealth Secretariat, has undertaken to review the effectiveness of existing instruments within multilateral development and trade institutions and processes and to identify policies, tools and/or approaches that would help these countries meet the challenges of globalization. This work is scheduled to be presented to ministers at the spring 2000 Development Committee meeting.

Of the 175 developing countries worldwide, 42 are small states. Since Canada represents 11 Caribbean small states at the World Bank, it has and will continue to work with its Caribbean partners to ensure that the special characteristics and challenges of small states are properly articulated and addressed. Canada has worked hard to ensure that the views, experiences and expertise of the small states themselves are included in the policy development process.

D) World Bank and International Trade

In anticipation of a next round of WTO negotiations, in FY 1999 the Bank intensified its work in supporting the poor countries to effectively participate in trade negotiations. Several capacity-building projects were launched during the year to help these countries implement their commitments to earlier trade rounds and build domestic expertise to participate in future negotiations.

The WTO 2000 Capacity Building Project, a three-year research and capacity-building initiative, was launched in January 1999 to help developing countries participate more effectively in the next round of WTO negotiations. Another capacity-building project was introduced during the year to specifically assist developing countries in the negotiations on agriculture. Both these projects are carried out in close collaboration with the WTO and various other institutions, and they receive support from a variety of donors.

The Bank also intensified its efforts within the integrated framework (IF), where six core organizations are working together with the least developed countries (LDCs) to co-ordinate their trade assistance programs. The main objective of the IF is to ensure that trade-related technical assistance is demand-driven and meets the needs identified by the LDCs. As part of the IF, about 40 LDCs are currently carrying out comprehensive needs assessments. By working closely with all involved parties, the IF seeks to increase the efficiency and effectiveness of the delivery of trade-related technical assistance.

During FY 1999, the Bank also convened a task force to explore possibilities to minimize the risks faced by commodity-exporting developing countries due to price fluctuations in the world markets.

E) Culture and Development

The Bank formalized its operational policy in FY 1999 to recognize the integral role of culture in sustainable development. The Bank is paying special attention to preventing investments supported by the Bank from harming cultural heritage sites and respecting the importance of indigenous cultures. During the year, the Bank developed close to 30 projects that combined sustainable development goals and promotion of cultural heritage.

F) Rural and Urban Services

Rural and urban sectors received 30 per cent of total Bank lending in FY 1999. Rural development is critical in pursuing the Bank's poverty reduction objective, since three quarters of poor people in developing countries live in rural areas. The Bank's work in rural development is wide-ranging and includes sustainable natural resource management, irrigation, river basin management, rural finance and agricultural research and extension work. With regard to the latter, the Bank works with the Consultative Group on International Agricultural Research, which brings together a network of 16 international agricultural research centres to mobilize the best agricultural knowledge to the developing countries.

Urbanization is another development issue that is becoming increasingly prominent. It is predicted that within a generation, the number of urban dwellers, the majority of them poor, will increase by 2.5 billion in the developing countries. Unless addressed quickly, urban poverty is poised to become a global crisis. This is the main message conveyed in the Bank's urban and local government strategy that was introduced in FY 1999. The urban strategy, which will guide the Bank's work in this context is focused on four areas of action: increasing services to the urban poor, encouraging city-owned development strategies, assisting capacity building in local governments, and strengthening national urban development strategies. Reflecting this shift in priorities, the Bank in FY 1999 lent US\$706 million in support of urban development projects.

In December 1999, the Bank co-launched (with the UN Centre for Human Settlements/HABITAT and under the patronage of Nelson Mandela) the Cities Alliance initiative to promote city development strategies and upgrading of slums. Canada, through the Canadian International Development Agency (CIDA), has joined the Cities Alliance coalition and will contribute \$800,000 to this initiative in 2000-01.

International Development Association

IDA is the World Bank Group's concessional lending window. It provides long-term loans at zero interest to the poorest of the developing countries in its mission to reduce their poverty and improve their quality of life. IDA does this by supporting projects that improve their living standards and by promoting equitable access to the benefits of economic development. IDA focuses on:

- results – to get the biggest development return from scarce aid resources;
- sustainability – to achieve an enduring development impact within an environmentally sustainable framework; and
- equity – to remove barriers and open up opportunities for the disadvantaged.

IDA is funded largely by contributions from the governments of the richer member countries and is replenished every three years. The Twelfth Replenishment (IDA 12), which was agreed to in November 1998, will finance projects over the three-year period that began in July 1999. Funding for this replenishment will allow IDA to lend about \$20.5 billion over the period.

IDA resource allocations are based on each recipient country's policy performance. For this purpose, the Bank has developed a rating system based on 20 indicators that reflect performance in three broad policy areas: sustainable growth and poverty reduction, reduction of inequalities, and governance/public sector management.

IDA Priorities

Poverty reduction is the cornerstone of IDA's development efforts. Sound macroeconomic and structural policies, institutional reforms and good governance are essential to achieving a sustainable decline in poverty. In recent years, IDA has devoted significant resources to improving the quality and effectiveness of its assistance efforts. The participation of governments, non-governmental organizations (NGOs) and civil society is crucial. The degree of borrower ownership and the level of participation by NGOs and civil society have increased substantially through the course of IDA replenishments.

IDA focuses its work on areas shown to have a significant development impact. For example, work is under way to improve IDA's track record in assisting borrowing countries to formulate and implement poverty reduction strategies that adequately incorporate gender. As well, in recognition of the fact that weak governance, including corruption, can constrain development, IDA has incorporated governance considerations in its work.

Lending for social services has been a focal point of the World Bank's – and particularly IDA's – poverty reduction efforts in recent years. IDA places particular emphasis on lending targeted directly at the poor under the Program of Targeted Interventions (PTI). For example, a PTI project in Algeria provides affordable housing and land titles to about 50,000 households in

low-income areas, including urban slums. The project will also offer basic infrastructure services, including roads, safe drinking water, sewage, drainage and electricity. Over the 1996–99 period, PTI lending has consistently accounted for more than 50 per cent of IDA's investment lending.

Table 3

**IDA Lending for the Program of Targeted Interventions
Fiscal Years 1997–99**

	1997	1998	1999
IDA PTI lending (in US\$ millions)	1,874	3,267	3,070
As % of IDA investment lending	53	54	65
As % of all IDA lending	41	44	45
Number of IDA PTI projects	37	59	71

An important result of the IDA 12 replenishment process was the conclusion that these new resources would be directed to countries that have good policies. IDA 12 resources focus on four key areas:

- **Investing in people** – Investments in basic social services, including primary education and health care, clean water and sanitation, nutrition and social protection. This funding will address such needs as ensuring that children who are forced to work to help support their families do not have to sacrifice opportunities to learn. Social sector lending will remain around 40 per cent of investment lending during IDA 12.
- **Promoting broad-based growth** – Development experience shows clearly that sustainable, broad-based economic growth is essential for poverty reduction. IDA therefore supports policy changes and projects that encourage the role and growth of the private sector, including local small businesses, micro-enterprises and small holding farms.
- **Supporting good governance** – Good governance is critical to sustainable, broad-based economic development and improvements in human well-being. As discussed above, IDA has strengthened its analytical framework to assess the quality of overall policy performance in recipient countries; the resultant standards will be applied in the allocation of IDA 12 resources.
- **Protecting the environment** – IDA will support strategies that promote environmentally sustainable development since the effects of poverty and environmental damage are often mutually reinforcing.

IDA Success Stories

- The China Basic Education in Poor and Minority Areas project benefits approximately 5 million children. The project supports activities for girls to earn money for school fees, provides free textbooks to 55,000 poor girls, strengthens girls' lower-secondary schools in religious minority areas, and trains female principals.
- In Senegal, the coverage and quality of family planning services in the public and private sectors have been considerably enhanced. Over 1,000 nurses were trained to manage rural health posts.
- The Arsenic Mitigation Water Supply project in Bangladesh is helping to stop contamination that is estimated to be affecting at least 15 per cent of the population.
- In Benin, forestry management plans have been designed and implemented for 268,000 hectares of forest and involving 320,000 people within or around the forests.
- With the help of an IDA-supported transport rehabilitation project, 984 km of roads were repaired in Georgia, significantly reducing travel times. Broad-based road maintenance is reaching most of the country.

IDA also recognizes that a special effort is needed in Africa – a region that continues to present a particularly difficult development challenge. Many African countries are now pursuing sound policies and experiencing greatly improved growth rates, opening a window of opportunity to improve the lives of their poorest citizens. Yet investment levels in these countries are too low to sustain this growth. Sustaining and building on the efforts of African governments will require substantial support from the international community, including both the private and public sectors. To support African countries that are committed to poverty reduction, economic reform and sustainable, broad-based growth, IDA intends to increase Africa's share of IDA resources to up to 50 per cent of IDA 12 resources, as long as the performance of individual countries warrants it.

Canada's Priorities at the World Bank

A) Developmental Priorities

Poverty Reduction: Despite considerable progress over the past two decades in improving living standards worldwide, over 3 billion people remain in poverty. The financial crisis of the emerging markets has eroded some of the progress achieved, with millions of people thrown back into poverty over the past three years.

Canada has long been a key player in international efforts to assist the poorest and strongly supports poverty reduction as the overarching objective of the World Bank. As such, Canada endorses the CDF under which the Bank promotes broad-based poverty reduction strategies in developing countries. The Bank has increasingly recognized that poverty reduction cannot be addressed in isolation. Private sector development, good governance and environmentally sustainable policies are just a few of the factors that need to be considered in designing strategies to help improve the living standards of the poor in member countries.

Canada's Voting Record

World Bank Executive Board decisions are usually taken on a consensus basis, without recourse to a formal vote. On occasion, however, individual Executive Directors have been unable to join the Board consensus for various reasons. In 1999, the Canadian Executive Director did not join the Board consensus on 10 occasions.

- In January 1999, Canada abstained on the US\$350-million single-tranched Structural Adjustment Loan for Pakistan, given a preference for disbursement of this facility in two separate tranches in order to make the loan's economic policy conditionality more effective. Despite the sanctions against Pakistan, the Board approved this loan on an exceptional basis, considering Pakistan's financial problems.
- In May 1999, Canada abstained on a US\$7.5-million credit for a cultural heritage project in Azerbaijan since the project was not well integrated into the country's larger social development agenda.
- In July 1999, Canada abstained on a US\$60-million IBRD loan and a US\$100-million IDA credit to China for a poverty reduction project in the western province of Qinghai since adequate environmental assessments were not undertaken beforehand.
- In 1999, Canada opposed three loans to India and abstained on four because they were seen as inconsistent with multilateral sanctions on India which limit Bank financing to projects that support basic human needs. Altogether, these loans amounted to US\$250 million, including a US\$210-million IBRD loan for an energy sector restructuring project, and a US\$30-million IFC investment in a coal mining project.

Poverty assessments continued to provide valuable support for the Bank's poverty reduction efforts last year. The Bank has completed 113 poverty assessments, covering approximately 90 per cent of the world's poor. However, the quality of poverty data is uneven. To address this problem and to help improve the effectiveness of its poverty reduction work, in 1998 the World Bank shifted the direction of its poverty work in two ways:

- by changing the focus of Country Assistance Strategies, which set out the Bank's key operational priorities in individual countries, from an analysis of the nature of poverty to the formulation of strategies designed to reduce poverty; and
- by emphasizing the broader impacts of Bank projects and policies on the poor, rather than focusing strictly on the quantity and value of poverty-targeted projects.

The Bank has also increased the prominence of social sector issues in macroeconomic stabilization programs. Good macroeconomic policy is key to boosting growth and thereby reducing poverty. At the same time, adequate attention to social issues is key to the success of macroeconomic stabilization and sustainable development goals.

To further ensure that poverty reduction remains at the heart of the Bank's operations, the Poverty Reduction and Economic Management Network (PREM) was established in 1997. The PREM, which is charged with developing an overall approach to poverty evaluation, advises Bank country teams on the poverty reduction impacts of emerging policies, programs and individual projects.

Gender Issues: World Bank lending in almost all sectors includes activities that specifically benefit women. In FY 1999, the Bank took steps to integrate gender issues into Country Assistance Strategies. In Bangladesh and Senegal, gender issues in health and education were incorporated in the Country Assistance Strategies. In general, the Bank-funded projects in agriculture, education, health and infrastructure take particular care to incorporate gender analyses and actions. CIDA is currently working closely with the World Bank to improve the latter's capacity in gender equity. Several consultations have been held on this issue in the past year. Also, \$150,000 of a \$1-million grant made by CIDA in FY 1999 to the World Bank Institute has been earmarked for gender equity.

Private Sector Development: Canada has encouraged the increasingly co-ordinated approach to private sector development that has grown within the Bank Group over the past two years. It is now recognized that the private sector has an important role to play in addressing virtually all development challenges, from protecting the environment to assisting in privatization in transition economies. In response, business innovation programs are now under way in all of the Bank's regional offices. The private sector development strategy of the Bank seeks to encourage private provisioning of infrastructure

facilities. In FY 1999, the Bank used a wide range of instruments for this task – adjustment lending, technical assistance, investment lending, guarantees and adaptable program lending. Altogether, some 16 per cent of FY 1999 total lending was earmarked for supporting private sector projects in transport, water and sanitation, urban development and communications.

In a shift of emphasis that reflects the growing importance of private capital and investment to developing countries, the World Bank Group has restructured to better align and expand its work related to the private sector. The reorganization, which took effect on January 1, 2000, strengthened the link between the World Bank Group's public sector work and its private sector development work done through the IFC. The reorganization includes both a new structure within the Bank Group and a new approach to creating a favourable business environment and helping finance small and medium-sized enterprises. A new combined unit has been given the mandate to co-ordinate Bank Group activities to disseminate the knowledge that will encourage creation of local intermediaries to help capitalize local financial institutions, and train the latter in the business of financing small and medium-sized enterprises. The new unit, in combination with increased IFC investments in local intermediaries that finance small businesses, reflect a significantly higher priority for this sector within the Bank Group.

The Bank also uses **guarantees** to expand developing countries' access to international and domestic capital markets. Complementing products offered by the IFC and MIGA, the Bank provides partial risk and partial credit guarantees for private investment in priority projects. One of the guarantee projects approved last year covered the first bond issue of Thailand's Electricity Generating Authority. The issue, the first emerging market credit since the collapse of the Russian economy in August 1998, received achievement awards from *Finance Asia* and *Euro Week*. FY 1999 also saw IDA getting involved in a partial risk guarantee project for the first time, to secure financing for a power project in Côte d'Ivoire that will export electricity to neighbouring countries. Also in FY 1999, the Bank introduced policy-based guarantees that would allow the Bank to participate in co-guarantee arrangements with other multilateral and bilateral organizations. The first application of this instrument was in Argentina. The country's US\$1.5-billion sovereign bond issue, which came to market in October 1999, was supported by a US\$250-million policy-based guarantee by the World Bank. The issue won the prestigious *International Financial Review's* 1999 awards for Sovereign Bond and Latin American Bond of the Year. The bond was also named one of the "Deals of the Year" by *Institutional Investor* magazine, and won the *Investment Dealers' Digest* award for Emerging Markets Bond of the Year.

In February 2000, the IFC marked its entry into the information network. It announced an investment of US\$200 million in a venture in partnership with Japan's SOFTBANK to spawn start-up Internet companies in some 100 developing countries. It is expected that this initiative will encourage other Internet enterprises to follow with their own investments and initiatives to establish technology and information centres all around the world.

Another example of the private sector's role in development is the growing impact of **micro-credit operations** (relatively small loans made to the poor by grassroots organizations such as the Grameen Bank in Bangladesh). With a small investment, these organizations have been successful in improving the living conditions of the poor, particularly women, in developing countries. Evidence from these operations is compelling; it shows that the poor can be very good entrepreneurs as well as very good credit risks.

The Consultative Group to Assist the Poorest (CGAP), which includes the World Bank, Canada and 26 other multilateral and bilateral donors, was established in 1995 to support the development and expansion of sustainable institutions that provide micro-financing services to the poor. CGAP has now entered its second stage of operations.

During the initial phase (1995-98), CGAP provided US\$26 million in grants to support micro-finance operations, as well as technical assistance for financial management training and the development of "best practices

Micro-Credit: The Consultative Group to Assist the Poorest

In its FY 1999, the Consultative Group to Assist the Poorest (CGAP) made 13 new investments in micro-finance institutions and special programs, including a new CGAP-France-Africa Capacity Building Program based in Senegal; a technical support project in West Africa involving Développement international Desjardins; and an experiment in market-based supervision with the Credit Unions of Guatemala. CGAP also funds the development of much needed practical tools and standards for the micro-finance sector.

For CGAP's second phase, donors have adopted the following strategies:

- to support micro-finance institutional development through the creation of tools and the delivery of capacity-building activities;
- to support changes in the practices of CGAP members, especially as they relate to the management of micro-finance portfolios;
- to increase the understanding of the impact of micro-financing on poverty reduction;
- to improve the legal and regulatory framework for micro-finance; and
- to facilitate the commercialization of the micro-finance sector.

Through this work, CGAP seeks to strengthen the ability of micro-finance organizations with a proven track record and to provide assistance to the poor. The World Bank has contributed US\$30 million to the first phase of the facility and has agreed to provide a further US\$7 million for the first year of the second phase until a multi-year commitment is put into place. CGAP bilateral donors have also agreed to provide US\$4 million in additional contributions in 1999.

policies” for micro-finance providers. CGAP members/donors are responsible for the maintenance of a core fund to support micro-finance programs in the developing world. The Canadian government approved a \$1.5-million, three-year agreement between CIDA and CGAP, which started in 1999.

Good Governance and Corruption: The Bank continues to emphasize the critical importance of good governance and making strides in addressing the issue of governance. As mentioned above, governance issues feature prominently in Bank-supported adjustment programs. In addition to encouraging more effective management of borrowing member public expenditures and more participatory and open approaches in decision making, the Bank incorporates anti-corruption measures into its own procedures. The Bank recently amended its procurement guidelines to strengthen the procedures for disqualifying bidders, temporarily or permanently, from future Bank-financed projects if it finds evidence of fraud or corruption. During the year, the Bank publicly named several firms that were found to be involved in fraudulent activities.

Canada has been particularly outspoken and concerned about unproductive expenditures, particularly excessive military expenditures. Canada has spoken strongly at the Bank to highlight the need to be tough on countries which increase defence spending while receiving international assistance. At a time of scarce donor resources, the Bank’s clients can ill afford to waste resources on unproductive spending. Recognizing this problem, the Bank is reviewing its current guidelines by surveying the policies and program approaches of the bilateral donors and other multilateral donors. Among other things, the Bank is requesting better information from borrowers on military-related aggregate expenditures to aid in its public expenditure reviews. In order to enhance the overall transparency and accountability of public sector activities, the Bank, in co-operation with the IMF, supports measures to strengthen public expenditure management systems in borrower countries. A number of countries are seeking Bank assistance in the conversion of military-run industries (China, South Africa and Hungary), while others, including Angola, Rwanda and Cambodia, have asked for help with demobilization and demilitarization.

IDA allocations are increasingly based on a borrowing government’s efforts to reduce unproductive expenditures.

The World Bank Institute (WBI)⁵ is an important delivery instrument for training on governance and anti-corruption issues. Through its public sector reform program, the WBI helps building and implementing anti-corruption strategies for those who directly seek Bank support in this area. The demand has been growing rapidly, with the Bank receiving over 30 requests. The WBI has helped countries such as Bolivia, Chile, Ethiopia, Nicaragua, Uganda and

⁵ In March 1999, to improve the efficiency of the Bank’s education and training programs, the Economic Development Institute was merged with the Bank’s Learning and Leadership Centre, with the new institute working under the name of World Bank Institute.

Ukraine to undertake in-depth analyses of institutional and policy weaknesses behind corrupt practices and, with broader participation of civil society groups, to design strategies to combat corruption. On the governance front, the WBI has established close working relations with other international organizations such as Transparency International and the Parliamentary Centre of Canada.

Environmentally Sustainable Development: The Canadian government, alongside Canadian NGOs, has long been a vocal advocate of the need for the Bank to better integrate environmental considerations into its operations and has been a keen supporter of the Bank's recent efforts. The establishment of the Environmental Sustainable Development vice-presidency in 1993 has been instrumental in supporting this objective. In FY 1999, the Bank approved US\$540 million of loans in support of 11 stand-alone environmental projects. In addition, the Bank approved US\$690 million for 17 agricultural, water and urban development projects which have a strong environmental focus. Over and above the Bank's portfolio of environmental projects, the Bank requires that every project it supports be environmentally sustainable. Environmental assessments, which are discussed with the public, are designed to test the environmental sustainability of each Bank project. In FY 1999, the Bank also took measures to expand the environmental assessments from project to sector level. This means that in the future broad sector strategies in agriculture and urban development, for example, will be reviewed in terms of their environmental impacts.

Cumulative active environmental projects since 1986 (including investments to reduce pollution, protect ecosystems and build environmental management capacity) levelled off in FY 1999 at US\$11.1 billion, after several years of sharp increases. This levelling off reflected the completion of several earlier environmental projects.

Of particular note is the increasing work undertaken by the Bank in co-operation with other shareholders in the area of **climate change**. It is now recognized that collective global action is required to find solutions to this problem, and the Bank has stepped up its efforts to provide assistance to its borrowing member countries in helping to reduce "greenhouse gases." In FY 1999, the Bank's Ozone Projects Trust Fund (established under the Multilateral Fund of the Montreal Protocol, or MFMP) approved a US\$150-million proposal (disbursed over 11 years, starting with US\$20 million in 1999) to reduce and close all chlorofluorocarbon (CFC) production facilities in China – one of the most important milestones in the history of the Montreal Protocol and its Fund. The project will eliminate CFC production of about 45,000 tons over 11 years. This amount represents about 60 per cent of the CFC production in developing countries, or about 45 per cent of the global production. In addition, during the year, the MFMP approved similar projects in Argentina, Colombia, India, Indonesia, Jordan, Pakistan, Thailand and Turkey.

With these new approvals the total disbursements for projects related to reducing greenhouse gases in FY 1999 are about US\$60.8 million (approximately US\$14 million over its target). Cumulative World Bank approvals in the area as of the end of 1999 now equal US\$351.68 million.

The Bank has also been active in developing a commercial framework for carbon emissions trading under the Conference of the Parties on Climate Change process. The Bank launched a Prototype Carbon Fund in January 2000.

World Bank Launches the Prototype Carbon Fund

In January 2000, the World Bank launched the Prototype Carbon Fund (PCF), established with contributions from governments and private companies. The PCF is the world's first commercial carbon emissions trading instrument. In its 2000 budget, the Government of Canada made available to the PCF up to \$20 million. The PCF will invest in cleaner technologies in developing countries and transition economies, thus reducing their greenhouse gas emissions. These emissions reductions will then be transferred to the Fund's contributors in the form of emissions reduction certificates. All parties will gain:

- poor countries will gain access to climate-friendly technologies as well as earning revenue from selling emissions reductions;
- contributors will receive low-cost emissions reductions to help them meet their commitments arising from the Kyoto Protocol; and
- the environment will benefit because the PCF provides poor countries with funds to switch to cleaner and more efficient technologies.

Starting in April 2000, the Bank plans to invest the Fund's capital in projects that promote renewable energy technologies – such as wind, small-hydro and bio-mass energy technology – that would not be profitable without revenue from emissions reductions sold to the PCF. Some 20 developing countries have already shown interest in undertaking PCF projects.

In addition, the Bank continued with its traditional work as a Global Environment Facility (GEF) implementing agency. As of June 30, 1999, the value of allocations to the GEF portfolio implemented by the World Bank Group had risen to over \$1.06 billion. The portfolio, working in over 80 countries, is composed of 124 projects, plus 18 “enabling activity” grants to assist countries to fulfill certain stock-taking and reporting obligations under the Biodiversity Convention. During the course of the year, the GEF Council approved a work plan that included 28 regular GEF investment projects. The Board approved 13 new operations for over US\$136 million.

B) Transparency and Accountability

Transparency and accountability are fundamental to ensuring the longer-term sustainability of the Bank Group's operations. Canada has been a major proponent of increased openness at the Bank. The Bank has responded to concerns from shareholders by making public a growing number of documents on operations, both from the IBRD/IDA and from the IFC. Once-confidential Country Assistance Strategy documents are now made available to the public at the request of respective governments.

Transparency also requires **better consultation with beneficiaries**. Canada and other donors have pushed the Bank and borrowing countries to find ways to improve consultations with local people – civil society and NGOs – in beneficiary countries, not only in the design and implementation of projects but also in the preparation of key policy documents, such as Country Assistance Strategies. To ensure that the Bank is accountable to its clients, Canada has been one of the major supporters of the work of the **Inspection Panel**. Canadian Jim MacNeill is the current Chair of the Panel. The World Bank was the first multilateral organization to establish an independent panel to consider outside complaints. Any group that may be affected by a Bank-supported project has the right to request that the Panel investigate whether the Bank has abided by its policies and procedures. Since its inception in 1994, the Panel has received 20 formal requests for inspections. The Panel received three requests for inspections during FY 1999, and recommended one investigation in China. This was in regard to a controversial US\$160-million poverty reduction project in China's western provinces of Gansu and Qinghai and the Inner Mongolia Autonomous Region. Several Executive Directors, including Canada's, who abstained from voting, expressed concerns about the environmental and social impacts of the project – particularly in the province of Qinghai. The project was approved on the condition that the Inspection Panel carry out a full investigation to recommend means of strengthening and improving the project.

C) Improving World Bank Effectiveness

Assessing Aid Effectiveness: In November 1998, the Bank's Economics Department released a landmark study on the effectiveness of international development assistance. It concluded that foreign aid has been highly successful in reducing poverty in countries which practise sound economic management and possess robust government institutions.⁶

The study estimates that by providing an annual increase of US\$10 billion in aid to good performers, an extra 25 million people would be lifted out of poverty. Moreover, every dollar of foreign aid provided to good performers can leverage an additional two dollars of investment as aid increases the

⁶ *Assessing Aid: What Works, What Doesn't, and Why* (World Bank, Policy Research Report Series, 1998). For the full report, see the World Bank Web site at <http://www.worldbank.org/research/aid/aidtoc.html>

How to Access Information at the World Bank

The World Bank's Public Information Centre, which became operational in early 1994, provides a wide range of Bank documents, including:

- project information documents;
- project appraisal documents (after approval by the Board of Executive Directors);
- country economic and sector work documents and sectoral policy papers;
- the annual report and the *World Development Report*;
- the *Monthly Operational Summary* and *International Business Opportunities*;
- environmental data sheets, assessments, analyses and action plans;
- *World Debt Tables*; and
- operation evaluation department précis.

The Bank's InfoShop is located at
1776 G Street N.W., Washington, DC 20433, U.S.A.
Phone: (202) 458-5454
Fax: (202) 522-1500

E-mail address: pic@worldbank.org

Additional up-to-date information is also available on the Internet at
<http://www.worldbank.org/html/pic/PIC.html>

confidence of the private sector and helps to build the public services that investors need. Conversely, the study confirmed that foreign assistance delivered to countries with poor governance and economic policy records is not particularly effective; significant foreign assistance has not led to any significant improvement in poverty reduction in these countries. Little evidence was found to substantiate the notion that an inadequate policy and institutional environment can be circumvented by targeting foreign assistance to specific activities (such as health and education).

The Bank is increasingly moving towards rewarding good performers. IDA allocations are now based on a performance criterion. The impact is most evident in Bank lending to Africa. Also, in India, for the first time, the Bank is exercising greater selectivity by concentrating support to reforming states. This in turn has resulted in increased reform efforts in several states. In order to monitor country performances in a meaningful manner, the Bank is focusing on incorporating poverty-related outcome indicators to measure real results. The outcomes are poverty focused and include such indicators as child malnutrition, and child and maternal mortality.

Ensuring the efficiency and effectiveness of the Bank's operations has long been a key objective of Canada. But efficiency and effectiveness entail more than just reducing costs and saving money. They require selectivity in setting clear priorities and delivering services more efficiently. The Bank needs to

operate in those areas where its assistance is needed and where it has a clear comparative advantage. It needs to reconsider its role in areas where the private sector or other multilateral development banks may be better placed to provide assistance.

In 1997, the Bank began to implement its three-year Strategic Compact, a plan for the comprehensive renewal of the World Bank. Under this plan, President James D. Wolfensohn pledged to transform the working culture of the Bank from one focusing on project development and approval to one which focuses on project implementation, quality and development effectiveness. The Strategic Compact has been underpinned by the Bank's Cost Effectiveness Review, developed jointly with KPMG, which recommended significant changes to internal Bank procedures and staff levels.

The Bank has come a long way towards meeting the goals of the Strategic Compact to provide higher quality service more efficiently. A significant shift of operational staff to the field has been undertaken to move the Bank closer to clients and make Bank assistance more effective. Currently, about 24 country directors operate from the field, compared with only 3 two years ago. Notable achievements have also been made in encouraging local-level ownership in projects and strategy formulation. For example, in preparing Indonesia's Country Assistance Strategy, the Bank was engaged in intense discussions with civil society and other stakeholders for over 18 months on issues of corruption and governance. The discussions were fruitful and results were productive.

In FY 1999, the Bank strengthened its efforts to improve development effectiveness through a renewed emphasis on the quality of its project portfolio. More vigilance was exercised at project preparation and supervision stages. The focus on results has been intensified. As a result, there is a significant improvement in the quality of the Bank project portfolio: 77 per cent of Bank projects had satisfactory outcomes, up from 65-70 per cent in 1990-96; and in FY 1999 the Bank managed to prepare projects in half the time and at two thirds the cost of five years ago.

D) Involving Civil Society and NGOs in Decision Making

President Wolfensohn has been a major catalyst behind the Bank's outreach program with civil society and NGOs; particular emphasis has been placed on the importance of expanding partnerships with outside groups. As a result, the level of NGO involvement in Bank-supported operations has continued to grow. Over 50 per cent of Bank projects across all major sectors included some form of NGO participation in FY 1999. Moreover, NGOs actively participated in Bank policy discussions: three quarters of Country Assistance Strategies prepared in FYs 1998 and 1999 included consultations with NGOs and civil society; NGOs provided valuable input to the policy deliberations at the Bank and the IMF on how to link HIPC debt relief to poverty reduction

goals. Two Canadian NGOs, the North-South Institute and the Halifax Initiative, were involved in the HIPC consultation process. NGO participation continued to progress in the face of the emerging market financial crisis. NGOs and representatives from civil society in the affected countries were brought together with Bank officials in Manila in 1999 to discuss and learn about the impact that the economic crisis has on the poor.

One key venue for ongoing dialogue is the NGO–World Bank Committee. Membership consists of senior Bank managers and 26 NGO leaders from around the world (15 from developing countries). Canada's current representative on this committee is Mario Lavoie of the International NGO Co-operation Project. In 1999, this committee established a more decentralized structure by expanding into six regional working groups where region-specific issues and strategies for effective co-operation can best be identified and implemented. During the year, the group developed proposals to broaden NGO dialogue with the Bank. These included creating incentives for Bank staff to engage NGOs, establishing more transparent mechanisms of consultation, and making more efforts to involve stakeholders at early stages of policy and project development.

Within Canada, NGOs have participated in a regular series of government meetings and conferences on such issues as multilateral debt, the environment, IDA and Africa. This consultation has proven useful for advancing Canadian interests at the Bank. The Canadian government has benefited greatly from the expertise and advice offered by Canadian NGOs on a broad range of development issues. Through this collaborative process with government, the views of Canadian NGOs have helped shape Canada's position in World Bank project and policy discussions.

Managing Canada's Interests at the World Bank

Finance Minister Paul Martin, as Canada's Governor at the World Bank, is responsible for the management of Canada's interests at the Bank. Minister Martin exercises his influence through exchanges of views at the Development Committee and annual meetings, and through discussions with the President of the World Bank. For example, at the 1998 Annual Meetings, governors addressed the issue of how to help countries affected by the emerging market financial crisis, and discussed progress in helping the poorest countries with unsustainable debt burdens through the HIPC Initiative as well as how to improve co-operation between the Bank and the Fund. The Department of Finance consults closely with the Department of Foreign Affairs and International Trade and CIDA in formulating Canadian policies related to World Bank issues. Len Good, the President of CIDA, is Canada's Alternate Governor for the World Bank.

The day-to-day handling of Canada's diverse interests at the Bank is delegated by the Governor to the Executive Director, currently Terrie O'Leary, who was elected in October 1998. She represents Canada and 12 other countries (Ireland and 11 Caribbean countries) at the Executive Board. Of 24 Executive Directors on the Board, 12 are from developing and transition countries and 12 from developed countries.

The Bank's Executive Board formally approves all loans, credits, projects and World Bank policies, discusses Country Assistance Strategies and provides strategic advice to Bank management as appropriate.

One of the important functions played by the Executive Director is her oversight of the Bank's administration and spending through her membership on the Board of Directors' Budget Committee. The Canadian Executive Director is one of eight Budget Committee members. The Budget Committee is responsible for reviewing the Bank's administrative budget. In addition to its role in overseeing Bank administrative operations and spending, the Budget Committee deliberates extensively on the level of planned Bank financing operations. It also played an important role in the development of the Strategic Compact in 1997, which set out a comprehensive set of internal Bank reforms designed to improve efficiency. The Committee will continue to play an important role in monitoring progress on the implementation of the Strategic Compact. In June 1999, the Committee recommended to the Board the approval of the US\$400-million administrative budget for FY 2000 to implement the works program for the final year of the Strategic Compact.

Canada's Office at the World Bank

The Canadian Executive Director's office continued in 1999 to support the activities of the World Trade Centre in Montreal and the Saskatchewan Trade Export Partnership, which organized commercial missions to the IFIs in Washington to help Canadian businesses understand the IFIs and identify business opportunities. During the past fiscal year, more than 500 business representatives have passed through the Executive Director's office and many more were exposed to World Bank business opportunities by participating in conferences and workshops across Canada.

The office also helped the WBI put in place the course on urban and city management held in Toronto from May 2-14, 1999. This event allowed Canada to showcase its expertise in this area.

Organization of the Office

The Executive Director is supported in her everyday duties by two Canadian advisors and two assistants. These officers are in constant communication with the Canadian government – not only with the Department of Finance, but also with CIDA and the Department of Foreign Affairs and International Trade. The Department of Finance co-ordinates Canada's policy advice and channels it to the Executive Director, and through her to World Bank management.

Structure of the Executive Director's Office

Executive Director:	Terrie O'Leary
Canadian Advisor:	Kathryn Hollifield
Canadian Advisor:	François Pagé
Canadian Assistant:	John Sinclair
Canadian Assistant:	Gilles René
Phone/fax:	(202) 458-0082/(202) 477-4155
Address:	MC-12-175, 1818 H St. N.W., Washington, DC 20433, U.S.A. toleary@worldbank.org jkarolczuk@worldbank.org

Beyond the formal work of the Executive Board as outlined above, the office provides a valuable interface between the Bank and Canadian constituents – individuals, NGOs, federal and provincial agencies, associations, the academic community and parliamentarians, among others.

One of the key roles of the office is to provide assistance to Canadians and Canadian businesses. Canada's procurement advisors, along with the Canadian Embassy in Washington, assist in providing advice and information on how to do business with the Bank (details are provided below.) Another point of contact for Canadians is the Bank's External Affairs Department (<http://www.worldbank.org/html/extdr/gen.htm>).

Canadian Procurement at the World Bank

Canadian companies and consultants often provide supplies, equipment or services to projects financed through the World Bank. Canadian expertise in the power, environmental, engineering, human resources, health, education, telecommunications, financial and transportation sectors has led to procurement opportunities for Canadian firms on developing country projects around the globe.

In FY 1999, many Canadian firms continued to benefit from Canada's World Bank membership by accessing procurement opportunities under World Bank financed loans. In FY 1999, disbursements to Canadian companies for the supply of goods and services under Bank financed project loans reached US\$106 million. In addition, the World Bank estimates that US\$137 million was disbursed to Canadian companies for procurement under adjustment loans, bringing total FY 1999 Bank disbursements to Canadians businesses to US\$243 million.

For the first time Canadian consulting firms ranked third among all supplying countries for consulting work through Bank financed projects, after the United States and the United Kingdom. More than US\$50 million of contracts were given to Canadian firms for consulting services representing 7 per cent of total disbursements. Canadian contracts were spread across more than 40 countries, with the highest volume undertaken in Benin, Burkina Faso, China, Croatia, Niger, Togo and Uganda.

The transport sector offered many opportunities to companies such as SNC Lavalin Inc., Lea International, Tecsalt International, Canarail and CPCS Transcom Ltd. Bombardier Inc. won a contract valued at over US\$22 million for the supply of seaplanes to Croatia. Acres International Ltd., Berocan International and Agra System Ltd. won contracts in the energy sector. Some companies, such as Price Waterhouse, Gervais Gagnon & Associés, Régie Inc. and E. Farell Consulting, were active in the area of privatization and regulatory reform.

The disbursements during FY 1999 bring cumulative disbursements to Canadian companies to US\$3.6 billion. The Bank has also reviewed and approved new contracts in FY 1999 for Canadian firms for almost US\$81 million, an increase over FY 1998 of 10 per cent.

Trust Fund Activities

A significant source of funds to facilitate increased Canadian participation in World Bank projects are the consultant trust funds supported by CIDA and administered by the World Bank. These are used to introduce new Canadian consultants to the Bank, as well as to encourage the Bank to undertake activities in areas of priority to Canada. In June 1995, CIDA concluded a new agreement with the World Bank, the Co-Financing, Technical Assistance and Consultant Trust Fund Framework Agreement, to govern all its trust fund arrangements with the Bank. Within the World Bank Group, CIDA currently finances trust funds at the World Bank at the IMF, the WBI as well as at the GEF – a facility hosted by the World Bank. These funds lead directly to contracts for Canadians in the feasibility, assessment and design of development projects.

In January 1999, CIDA renewed for another five years its \$1-million-per-year trust fund with the WBI. The trust fund enables the WBI to engage Canadian expertise in the preparation and delivery of its training programs around the world in countries eligible for Canadian Official Development Assistance. Through annual CIDA–WBI consultations, allocations are made to a number of WBI programs – usually five or six main programs – based on their fit with Canadian priorities and engagement of Canadian partners. In addition, CIDA's Program of Assistance for Central and Eastern Europe made a direct contribution of \$880,000 to a WBI program of seminars on social policy reform for decision makers in the former Soviet Union.

Following an evaluation of several of its trust funds conducted in the fall of 1999, CIDA has initiated a redesign of most of its trust funds in consultation with other stakeholders such as the Department of Foreign Affairs and International Trade and the Department of Finance. As a result, a new Framework Agreement Arrangement with the World Bank will be put in place upon completion of this process. The new agreement will continue to support Canadian consultants involved in the identification, preparation and implementation of World Bank financed projects. CIDA and Environment Canada also negotiated the new Canadian Consultant Trust Fund for the Global Environment with the World Bank. For further information on these and other Canadian trust funds at the World Bank, contact Marie Stamp, Commercial Counsellor at the Canadian Embassy in Washington (phone (202) 682-7719; fax (202) 682-7789) and François Pagé, Advisor, at the Executive Director's office (phone (202) 458-0082; fax (202) 477-4155).

Canadian Success Stories

Canadian companies continued to be beneficiaries of World Bank Group financing and capital mobilization efforts. A number of Canadian companies from key sectors have begun to work with the World Bank Group. For example, in FY 1999:

- Envista Technologies from Saskatchewan won a bid for US\$1.1 million to install an environmental information system for Bogota, Columbia, through a joint program of the United Nations and the World Bank;
- Clifton Associates, also from Saskatchewan, were selected by the World Bank's mining division to undertake specific environmental assessments of uranium tailings sites in the Kyrgyz Republic; and
- the Association of Canadian Community Colleges, in co-operation with Human Resources Development Canada, won a contract of US\$3 million to provide technical assistance to the National Agency for Employment and Vocational Training in Romania.

International Finance Corporation

The IFC is playing an increasingly important role in the World Bank Group's private sector development activities. As a fast-growing entity within the Bank Group, it has also attracted the attention of Canadian companies and financial institutions that are interested in making direct investments in emerging markets. Given its private sector mandate and concerns for investor and client commercial confidentiality, the IFC does not report detailed procurement figures as do the IBRD and IDA.

One of the IFC's essential functions is to mobilize financing and expert advice in favour of private sector projects in emerging markets. The Corporation has been an excellent resource for Canadian financial institutions, as well as for Canadian firms whose technical expertise is particularly suitable for these markets. In March 1999, an IFC delegation attended the annual dinner of the Canadian Association of Petroleum Producers in Calgary. This brought senior IFC officials in close contact with leading Canadian oil and gas companies to highlight financing opportunities through the IFC.

One of the most significant developments on the IFC front in the mid-1990s was the return of Canadian financial institutions (typically commercial banks) to the IFC loan syndication program. This important program helps to mobilize private financing for IFC projects and provides financial institutions with the opportunity to invest in emerging markets. By investing alongside the IFC, financial institutions participating in the syndication program gain access to potential new customers, attain a high yielding asset and, with the presence of the IFC as an investor in these projects, are provided a degree of political risk coverage. By the end of FY 1999, Canadian financial institutions had provided some US\$363 million in co-financing for IFC projects.

As with other international development institutions, the emerging market financial crisis has forced the IFC to make some major changes. Throughout the developing world, the demand for long-term private capital continues to outstrip supply. This is particularly the case as lenders pull out of risky markets. Even companies in countries once considered to have "graduated" from the IFC's programs are again seeking help from the IFC and other multilateral institutions. These companies are looking for financial support but, more importantly, also seek technical support to help them in their restructuring processes.

A second challenge ahead for the IFC is to ensure that in the face of massive demand, they do not ignore the poorest countries, such as those in Sub-Saharan Africa. In today's global environment, the IFC's role in the poorest countries is more important than ever. The IFC, with the support of IDA, will work to build programs that can provide financial services for micro-enterprises as well as small and medium-sized enterprises, and that will deepen financial infrastructure to mobilize and allocate domestic savings. The IFC will also work to develop physical infrastructure through new investments and privatization by mobilizing domestic and foreign capital.

Learning About Opportunities

Canadian firms, organizations and institutions that are interested in pursuing markets created by World Bank financed projects are urged to attend monthly business briefings held on the first Thursday of each month at Bank headquarters in Washington.

Both the Canadian Embassy in Washington, through the Office for Liaison with International Financial Institutions, at (202) 682-7719, and the Canadian Executive Director's Office at the World Bank, at (202) 458-0082, work to assist Canadian firms and consultants seeking to participate in World Bank financed projects. The range of opportunities is wide – a power project in China, an environmental assessment in Peru or a legal/judicial reform project in Russia are examples. These two offices also encourage Canadian companies to contact them if they are interested in competing for procurement contracts.

Canada's Financial Participation

International Bank for Reconstruction and Development

Canada's share of the IBRD capital is approximately 3 per cent. A relatively small proportion of this capital contribution is required to be "paid-in" – about 6 per cent overall, but just 3 per cent in the last capital contribution. The remainder is "callable," in the unlikely event that the IBRD needs it from member countries. Periodically, the IBRD replenishes its capital through general capital increases (GCIs). The IBRD's latest such capital increase (GCI III) in 1988 was for US\$76.5 billion. Canada was allocated 19,655 new shares valued at US\$2.37 billion. The paid-in portion of these shares is US\$71.1 million. These shares were subscribed over a five-year period ending in 1993. As of June 30, 1999, Canada's cumulative subscriptions to the IBRD's capital stock totalled US\$5.403 billion (44,795 shares), of which US\$334.5 million has been paid-in.

International Development Association

In November 1998, donors agreed to a Twelfth Replenishment of IDA in the amount of US\$20.5 billion. This will finance IDA's lending program over the three-year period to June 30, 2002.

Canada maintained the same share as in IDA 11 of 3.75 per cent of donor contributions at a total cost of C\$607 million. To meet these obligations, Canada will issue three demand notes in 1999, 2000 and 2001. Each of these notes is then encashed over a six-year period. At the end of FY 1999, Canada's cumulative contributions to IDA (subscriptions and contributions) were the equivalent of US\$4.222 billion.

International Finance Corporation

The Government of Canada is a strong supporter of the technical assistance and advisory programs of the IFC, which provide over US\$23 million in funding for these activities. In FY 1999, Canada contributed about US\$0.5 million to the programs. Canada's support has strengthened the IFC's ability to extend its work program in countries with difficult business environments, to undertake important work on strengthening legal and regulatory infrastructure, and to help the countries to develop effective private sector financial market institutions. At the end of FY 1999, Canada's cumulative contributions to the IFC amounted to US\$81.346 million.

Multilateral Investment Guarantee Agency

MIGA was established in 1988 to encourage direct foreign investment in developing countries by protecting investors from certain non-commercial risks. MIGA operates on a commercial basis.

On March 31, 1998, MIGA's Board of Directors agreed on the framework for the GCI. The amount of the increase will be US\$850 million, which will be divided into 78,559 shares of capital stock. Of this amount, 17.65 per cent will be paid-in and 82.35 per cent will be callable. The subscription period, over which the paid-in share will be provided, will be three years.

Under the capital increase, Canada will receive an additional 2,260 shares, with a paid-in portion of US\$4,315,990 and a callable portion of US\$20,137,210. Canada's paid-in contribution to MIGA is non-budgetary; its share in MIGA will stay at 2.87 per cent.

On February 12, 1999, MIGA announced a landmark increase from US\$50 million to US\$110 million in the amount of political risk coverage it may issue for foreign direct investments in a project and an increase from US\$250 million to US\$350 million in its country limit. This development will allow investors access to higher levels of risk insurance in MIGA's 127 countries of operations.

Future Challenges

The relative importance of the World Bank as financier to developing countries increases in times of financial stress. Total private capital flows to developing countries increased from US\$44 billion in 1990 to over US\$250 billion in 1997, but fell significantly following the emerging market financial crisis. Moreover, private capital flows to developing countries have never been evenly distributed. The major challenge for the future will therefore be for the Bank to find more creative ways of meeting the increasingly diverse needs of its clients, only some of which benefit from greater private capital.

The Bank will be a key player in international efforts to prevent future financial crises. Its operations in the areas of strengthening financial sectors, improving corporate governance and enhancing transparency and accountability of public sector activities are particularly important in putting together adequate institutional structures that may better withstand future crises.

The Bank will face several other challenges in the coming year. As noted, the social costs in South East Asia and several other large emerging market economies recovering from financial crises will require increased resources and enhanced co-ordination with other international institutions and donors. At the same time, the Bank will need to look at more innovative ways to address the problems of the poorest countries, particularly those in Sub-Saharan Africa. President Wolfensohn's proposed CDF and the ensuing PRSPs should help guide the Bank by providing improved tools for assessing development needs of the developing countries. The Bank's efforts to remain flexible in its approach to development and encourage country ownership of Bank supported programs are steps in the right direction.

Without careful attention to the unique needs of individual countries, the Bank will be unable to meet its objectives of improving the quality of its operations and strengthening its development impact.

Last year the Bank saw an unprecedented increase in demand for financing; the world has not yet seen the resolution of the consequences – both economic and social – of the emerging market financial crisis. It is likely that the demand for Bank financing will remain high. However, with its responsibility to remain an active lender comes the equally important responsibility of ensuring that it has sufficient resources to handle the job. Thus establishing priorities and being selective remain key. In this context, ensuring the financial stability of the Bank as a development institution is also a continuing challenge.

JOINT ISSUES

Overview

The IMF and the World Bank are important institutions for Canada, each playing a unique role in the international economic and financial system. Nevertheless, there are key areas where the mandates of the two Bretton Woods institutions overlap, or where there is a requirement for close co-operation and co-ordination of activities. Indeed, at the Halifax Summit, G-7 leaders asked that efforts be made to increase co-operation and co-ordination between the IMF and the World Bank. The heads of both institutions have put considerable effort into fulfilling that objective. Two particular examples – the joint preparation of a proposed program of assistance for HIPC's and co-operation on addressing financial sector reform – are examined below.

Strengthening Financial Sectors

Problems in the financial sector, and especially the banking system, can disrupt to growth and macroeconomic stability and can spill over regionally and internationally, as highlighted by the emerging market financial crisis. In response to concerns about such problems, the IMF and World Bank are devoting increasing attention to financial sector issues. Discussions in both institutions in the past couple of years have focused on how they can assist member countries to establish and maintain sound financial systems.

The special Financial Sector Liaison Committee has been established to enhance operational co-ordination on work in the financial sector in individual countries.

In co-operation with the World Bank, the Fund is preparing Financial System Stability Assessments (FSSAs) for selected countries. These will help identify and assess vulnerabilities in financial systems, and help assess observance of core principles, standards and good practices by member countries.

The FSSAs include a form of "peer review" in that they are prepared with the participation of outside experts drawn from national supervisory agencies. This represents the operationalization of Canada's peer review proposal made at the IMF meetings in April 1998.

Canada was the first industrialized country to undergo an FSSA. IMF and World Bank staff members and outside specialists from Australia, Brazil, Germany, Sweden and the United States conducted a pilot review of Canada's financial system in October 1999. The results of the peer review were released in the staff report for the 2000 Article IV consultation with Canada. Overall, the assessment found Canada's financial system to be among the soundest in the world (see <http://www.imf.org/external/pubs/cat/longres.cfm?sk&sk=3420.0>).

Multilateral Debt Relief

At the Halifax Summit in June 1995, the G-7 countries urged the Bretton Woods institutions to develop a comprehensive approach to address the special problems of the poorest countries with large multilateral debt burdens. This was to be done through the flexible application of existing instruments and the creation of new mechanisms for debt relief. Just over a year later, at the 1996 annual meetings of the IMF and World Bank, the details of a new debt initiative for the HIPC¹s were endorsed by the membership of the two institutions.

The primary goal of this HIPC Initiative is to ensure that HIPC¹s demonstrating a track record of sustained good policy performance are able to achieve overall external debt sustainability, strengthen their poverty reduction programs and permanently “exit” from future debt rescheduling exercises.

Since its inception, debt relief under the original HIPC framework was agreed to for seven countries – Bolivia, Guyana, Burkina Faso, Côte d’Ivoire, Mali, Mozambique and Uganda – totalling US\$3.4 billion in present-value terms, or a reduction in nominal debt service of about US\$6.8 billion. Uganda, Bolivia, Guyana and Mozambique completed the original HIPC process and received debt relief totalling nearly US\$2.8 billion in present-value terms, and US\$5.5 billion in debt service relief. Preliminary reviews for assistance were also completed for five other countries – Ethiopia, Guinea-Bissau, Mauritania, Nicaragua and Tanzania. Two countries – Benin and Senegal – were considered to have debt that was sustainable under the terms of the original framework.

Two years into its implementation, the international community realized that the HIPC Initiative was not delivering its promise of debt sustainability and poverty reduction. Debt relief was too little, too late and available to too few countries. Canada, other donor countries and civil society called for a comprehensive review of the HIPC Initiative. In response, the IMF and World Bank launched a global consultative process beginning in 1999.

During the first half of 1999, submissions for HIPC enhancements poured in from civil society and governments, including six of the G-7 countries (including Canada). This consultative process was capped by the G-7 enhanced Debt Initiative, which called for faster, deeper and broader debt relief and an enhanced focus on poverty reduction. At the Köln Summit in June 1999, G-7 leaders collectively agreed on enhancements to the HIPC Debt Initiative, making poverty reduction and debt sustainability its overarching objectives. This initiative adopted many of Canada’s proposals, and the emphasis on poverty reduction reflects the core mandate of the Canadian development assistance program. The World Bank and IMF endorsed the new debt plan and introduced PRSPs as the main mechanism for ensuring that gains secured from debt relief are used to invest in social sectors, particularly in health and education.

To qualify for exceptional relief under the new framework, a country must be an IDA-only borrower and face an unsustainable debt situation after the full application of current debt relief mechanisms. The sustainability of the debt burden is determined on the basis of the ratio of debt-to-exports and debt-to-revenues (calculated in net present-value terms). A debt-to-exports ratio of 150 per cent and a debt-to-revenues ratio of 250 per cent are judged to be the upper limit of debt sustainability for HIPC, compared to a debt-to-exports target in the range of 200-250 per cent and a debt-to-revenues target of 280 per cent under the original HIPC Initiative.

According to the World Bank, these enhancements will more than double the amount of debt relief to over US\$28 billion. Among the 40 HIPC, 36 countries are now expected to be eligible for enhanced debt relief, compared to 29 under the original HIPC framework. Debt relief will be faster since the multilateral creditors are agreeing, for the first time, to provide debt relief starting at the point of decision on a country's eligibility for HIPC relief. In the first two months of 2000, the IMF and World Bank considered retroactive debt relief for Uganda and Bolivia, and Mauritania became the first "new case" to reach a decision point under the enhanced HIPC Initiative. Preliminary reviews for assistance under the enhanced HIPC Initiative have been completed for four other cases – Guinea, Honduras, Tanzania and Nicaragua.

The new HIPC Initiative will further reduce debt service ratios and release considerable resources for social sector expenditures and other key priorities. For example, based on the experience of countries already treated under the original HIPC Initiative, the World Bank calculates that debt relief under the enhanced HIPC Initiative could potentially allow social spending to increase by a third. It should also be noted that the agreed cancellation of aid-related debts by the G-7 countries after HIPC debt relief would further release resources for key priorities.

The new PRSPs will then serve as a tool to strengthen the linkages between debt relief and poverty reduction to ensure that the resources released from debt relief mean additional monies for social spending and poverty reduction programs. The PRSPs will be developed by the individual HIPC governments in consultation with the IFIs and broad segments of civil society, and will guide country assistance programs of both the IMF and the World Bank. The PRSPs, by putting the HIPC in the driver's seat, hold the promise of accelerating poverty reduction.

Canada has been a strong supporter of reducing the unsustainable debt burdens of the poor countries. Bilateral assistance has been provided in three areas:

- Canada has forgiven all Official Development Assistance debt from HIPC, with the exception of Burma (Myanmar); this has amounted to \$900 million since 1978;

- Canada helped to close the financing gap in the debt relief package for Mozambique; in March 1998, Canada pledged to contribute \$8 million, despite having no loans outstanding to this country; and
- in 1998, Canada also contributed about \$32 million to the HIPC Trust Fund, of which \$20 million has been earmarked to ensure the full participation of the African Development Bank; of the remainder, Canada used \$1.5 million to provide debt relief for Guyana. The 2000 budget made available \$175 million for additional grants to the trust funds at the IMF and World Bank to benefit the poorest countries, raising Canada's total contributions to date to \$215 million.

In the fall of 1998, Canada became a leading voice in calling for HIPC reforms. On March 25, 1999, Prime Minister Jean Chrétien announced the Canadian proposals to enhance debt relief and, in so doing, Canada emerged as a leader among the G-7 on the debt issue. Moreover, Canada pledged to provide 100-per-cent debt relief to the poorest countries, namely Bangladesh, Honduras, Madagascar, Tanzania and possibly Zambia. In December 1999, Canada made good on its pledge and forgave debts owed by Bangladesh, a reforming least developed country. Other possible beneficiaries will be offered 100-per-cent reduction once they have completed their HIPC program. Canada also pledged to consider five additional countries – Ethiopia, Rwanda, Liberia, Sudan and the Democratic Republic of Congo (formerly Zaïre) – when their situation permits. The February 2000 budget expanded the 100-per-cent debt forgiveness to all eligible HIPCs that are making a real effort to improve the well-being of their citizens.

Existing Mechanisms for Assisting Heavily Indebted Poor Countries

World Bank Mechanisms

Regular Lending – The World Bank makes IDA credits available on highly concessional terms. In general, these take the form of 40-year loans which carry no interest rate charges.

Enhanced Access – Countries which are making special efforts to clear their arrears or undertake comprehensive debt workouts are given increased access to relatively scarce IDA resources.

The Fifth Dimension Facility – IDA-only countries which have incurred past market-rate borrowings from the IBRD also receive annual interest rate subsidies. In recent years, these have had the effect of reducing the interest rate on the earlier IBRD loans from an average of about 6 per cent to less than 1 per cent.

IDA-Only Debt Reduction Facility – The IBRD provides grant financing (which carries no interest or principal) to eliminate up to 100 per cent of the debt which IDA-only countries owe to commercial banks. To date, this World Bank facility has extinguished almost US\$3 billion of commercial-bank debt at no cost to these developing countries.

International Monetary Fund Mechanisms

Surveillance of Policies – In individual countries, the IMF provides advice which encourages the adoption of policies that provide a basis for sustained economic growth and price stability. More broadly, IMF surveillance of the global monetary system is aimed at promoting the balanced growth of world trade and an orderly and stable system of exchange rates.

PRGF – The PRGF is the IMF's major source of concessional financing for low-income countries which are undertaking major reform efforts in the context of a Fund program. In recognition of the special challenges of these countries, the PRGF provides loans which carry longer maturity periods and significantly lower interest rates than regular IMF arrangements.

Technical Assistance – Both the IMF and World Bank provide substantial technical assistance to low-income countries to help strengthen their debt management policies.

ANNEX 1

Active IMF Lending Arrangements – As of December 31, 1999

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Stand-By Arrangements – Total			39,897.68	12,711.81
Bosnia and Herzegovina	May 29, 1998	April 28, 2000	77.51	24.24
Brazil	December 2, 1998	December 1, 2001	10,419.84	2,550.69
Cape Verde	February 20, 1998	March 15, 2000	2.50	2.50
El Salvador	September 23, 1998	February 22, 2000	37.68	37.68
Korea	December 4, 1997	December 3, 2000	15,500.00	1,087.50
Latvia	December 10, 1999	April 9, 2001	33.00	33.00
Mexico	July 7, 1999	November 30, 2000	3,103.00	2,068.60
Philippines	April 1, 1998	March 31, 2000	1,020.79	475.13
Romania	August 5, 1999	March 31, 2000	400.00	347.00
Russian Federation	July 28, 1999	December 27, 2000	3,300.00	2,828.57
Thailand	August 20, 1997	June 19, 2000	2,900.00	400.00
Turkey	December 22, 1999	December 21, 2002	2,892.00	2,670.28
Uruguay	March 29, 1999	March 28, 2000	70.00	70.00
Zimbabwe	August 2, 1999	October 1, 2000	141.36	116.62
Extended Fund Facility arrangements – Total			14,035.13	8,826.90
Argentina	February 4, 1998	February 3, 2001	2,080.00	2,080.00
Azerbaijan	December 20, 1996	Mars 19, 2000	58.50	5.26
Bulgaria	September 25, 1998	September 24, 2001	627.62	313.82
Columbia	December 20, 1999	December 19, 2002	1,957.00	1,957.00
Croatia	March 12, 1997	March 11, 2000	353.16	324.38
Indonesia	August 25, 1998	November 5, 2000	5,383.10	1,585.40
Jordan	April 15, 1999	April 14, 2002	127.88	106.56
Kazakhstan	December 13, 1999	December 12, 2002	329.10	329.10
Moldova	May 20, 1996	May 19, 2000	135.00	47.50
Pakistan	October 20, 1997	October 19, 2000	454.92	341.18
Panama	December 10, 1997	December 9, 2000	120.00	80.00
Peru	June 24, 1999	May 31, 2002	383.00	383.00
Ukraine	September 4, 1998	September 3, 2001	1,919.95	1,207.80
Yemen, Republic of	October 29, 1997	March 1, 2001	105.90	65.90

ANNEX 1

Active IMF Lending Arrangements – As of December 31, 1999 (cont'd)

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Poverty Reduction and Growth Facility arrangements – Total			3,639.69	1,957.27
Albania	May 13, 1998	May 12, 2001	45.04	23.69
Azerbaijan	December 20, 1996	January 24, 2000	93.60	11.70
Benin	August 28, 1996	January 7, 2000	27.18	10.87
Bolivia	September 18, 1998	September 17, 2001	100.96	67.31
Burkina Faso	September 10, 1999	September 9, 2002	39.12	33.53
Cambodia	October 22, 1999	October 21, 2002	58.50	50.14
Cameroon	August 20, 1997	August 19, 2000	162.12	36.03
Central African Republic	July 20, 1998	July 19, 2001	49.44	32.96
Côte d'Ivoire	March 17, 1998	March 16, 2001	285.84	161.98
Djibouti	October 18, 1999	October 17, 2002	19.08	16.36
Gambia	June 29, 1998	June 28, 2001	20.61	13.74
Ghana	May 3, 1999	May 2, 2002	155.00	110.70
Guinea	January 13, 1997	January 12, 2000	70.80	15.73
Guyana	July 15, 1998	July 14, 2001	53.76	35.84
Honduras	March 26, 1999	March 25, 2002	156.75	80.75
Kyrgyz Republic	June 26, 1998	June 25, 2001	73.38	43.00
Macedonia, FYR	April 11, 1997	April 10, 2000	54.56	27.28
Madagascar	November 27, 1996	July 27, 2000	81.36	40.68
Mali	August 6, 1999	August 5, 2002	46.65	39.90
Mauritania	July 21, 1999	July 20, 2002	42.49	36.42
Mongolia	July 30, 1997	July 29, 2000	33.39	21.89
Mozambique	June 28, 1999	June 27, 2002	58.80	50.40
Nicaragua	March 18, 1998	March 17, 2001	148.96	53.82
Pakistan	October 20, 1997	October 19, 2000	682.38	417.01
Rwanda	June 24, 1998	June 23, 2001	71.40	38.08
Senegal	April 20, 1998	April 19, 2001	107.01	57.07
Tajikistan	June 24, 1998	June 23, 2001	100.30	53.34
Tanzania	November 8, 1996	February 7, 2000	181.59	0
Uganda	November 10, 1997	November 9, 2000	100.43	17.85
Yemen, Republic of	October 29, 1997	October 28, 2000	264.75	114.75
Zambia	March 25, 1999	March 24, 2002	254.45	244.45
Total			57,572.50	23,495.98

ANNEX 2

IBRD Loans and IDA Credits – Fiscal Year 1999 (July 1, 1998 – June 30, 1999)

	IBRD Amount	IDA Amount	Total No.	Total Amount
(in millions of US dollars)				
By area				
Africa	5.0	2,063.5	57	2,068.5
East Asia and Pacific	8,754.8	1,010.4	55	9,765.2
South Asia	750.0	1,812.0	18	2,562.0
Europe and Central Asia	4,350.3	935.7	74	5,286.0
Latin America and the Caribbean	7,133.3	603.6	51	7,736.8
Middle East and North Africa	1,189.0	386.5	22	1,575.5
Total	22,182.3	6,811.8	276	28,994.1
By purpose				
Agriculture	1,787.7	1,020.1		2,807.8
Education	804.4	539.8		1,344.3
Electric power and other energy	340.0	100.0		440.0
Environment	311.0	228.3		539.3
Finance	2,574.9	301.5		2,876.4
Industry	590.0	87.0		677.0
Mining	300.0	15.0		315.0
Multisector	8,811.7	1,457.9		10,269.6
Oil and gas	–	17.5		17.5
Population, health and nutrition	514.2	592.5		1,106.7
Public sector management	1,042.1	387.8		1,430.0
Social sector	2,235.9	442.7		2,678.6
Telecommunications	–	10.8		10.8
Transportation	2,040.5	981.3		3,021.8
Urban development	319.0	386.6		706.5
Water supply and sanitation	509.8	242.9		752.7
Total	22,182.3	6,811.8		28,994.1

ANNEX 3

IBRD Loans and IDA Credits to Developing Countries

	IBRD		IDA		Total	
	No.	Amount	No.	Amount	No.	Amount
(in millions of US dollars)						
By fiscal year¹						
Cumulative to 1968	549	11,418.1	116	1,831.8	665	13,249.9
Total 1969-1973	374	8,917.8	273	3,931.6	647	12,849.4
Total 1974-1978	666	24,372.3	376	7,947.4	1,042	32,319.7
Total 1979-1983	711	44,908.0	518	16,368.1	1,229	61,276.1
1983-1984	129	11,947.2	106	3,575.0	235	15,522.2
1984-1985	131	11,356.3	105	3,028.1	236	14,384.4
1985-1986	131	13,178.8	97	3,139.9	228	16,318.7
1986-1987	127	14,188.2	108	3,485.8	235	17,674.0
1987-1988	118	14,762.0	99	4,458.7	217	19,220.7
1988-1989	119	16,433.2	106	4,933.6	225	21,366.8
1989-1990	121	15,179.7	101	5,522.0	222	20,701.7
1990-1991	126	16,392.2	103	6,293.3	229	22,685.5
1991-1992	112	15,156.0	110	6,549.7	222	21,705.7
1992-1993	122	16,944.5	123	6,751.4	245	23,695.9
1993-1994	124	14,243.9	104	6,592.1	228	20,836.0
1994-1995	134	16,852.6	108	5,699.2	242	22,521.8
1995-1996	129	14,656.0	127	6,864.0	256	21,520.0
1996-1997	141	14,525.0	100	4,622.0	241	19,147.0
1997-1998	151	21,086.2	135	7,507.8	286	28,594.0
1998-1999	131	22,182.3	145	6,811.8	276	28,994.1
Total	4,346	338,699.5	3,060	115,883.5	7,406	454,583.6

¹ Fiscal years are those of the World Bank Group (July 1 to June 30).

ANNEX 4

Disbursements by IBRD and IDA Borrowers – Goods and Services From Canada – To June 30, 1999

	IBRD Amount	IDA Amount	Total Amount
(in millions of US dollars)			
By calendar year			
Cumulative to December 1960	133.5	–	133.5
1961	8.2	–	8.2
1962	3.7	–	3.7
1963	5.6	7.4	13.0
1964	4.7	1.8	6.5
1965	5.4	2.7	8.1
1966	11.6	5.3	16.9
1967	13.2	14.7	27.9
1968	6.3	7.8	14.1
1969	4.4	11.0	15.4
1970	7.6	1.3	8.9
1971	11.1	2.2	13.3
1972	10.5	2.3	12.8
1973	12.4	5.1	17.5
1974	15.8	8.4	24.2
1975	22.1	15.0	37.1
1976	25.7	10.8	36.5
1977	34.5	4.8	39.3
1978	26.1	5.5	31.6
1979	44.4	8.1	52.5
1980	51.5	7.8	59.3
1981	94.3	14.5	108.8
1982	75.0	17.6	92.6
1983	82.3	26.9	109.2
1984	92.6	54.3	146.9
1985	94.3	39.7	134.0
1986	184.8	46.8	231.6
1987 (January – June)	92.8	23.4	116.2

ANNEX 4

Disbursements by IBRD and IDA Borrowers – Goods and Services From Canada – To June 30, 1999 (*cont'd*)

	IBRD Amount	IDA Amount	Total Amount
(in millions of US dollars)			
By fiscal year¹			
1988 – 1989	182.1	47.4	229.5
1989 – 1990	197.0	45.0	242.0
1990 – 1991	164.0	41.0	205.0
1991 – 1992	139.0	34.0	173.0
1992 – 1993	131.0	38.0	169.0
1993 – 1994	151.0	41.0	192.0
1994 – 1995	115.0	69.0	184.0
1995 – 1996	123.0	48.0	171.0
1996 – 1997	169.0	56.0	225.0
1997 – 1998	113.0	42.0	155.0
1998 – 1999	82.0	32.0	114.0
1999 – 2000	69.0	37.0	106.0
Total	2,760.0	850.0	3,110.0
Per cent of total disbursements	2.33	1.85	n.a.
Per cent of FY 1999 disbursements	2.76	2.15	2.51

¹ Fiscal years are those of the World Bank Group (July 1 to June 30).

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country – As of June 30, 1999

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Borrower or guarantor				
Afghanistan	–	230.1	20	230.1
Africa region	15.0	45.5	2	60.5
Albania	–	481.7	33	481.7
Algeria	5,558.5	–	62	5,558.5
Angola	–	277.8	10	277.8
Argentina	17,714.3	–	104	17,714.3
Armenia	12.0	523.3	20	535.3
Australia	417.7	–	7	417.7
Austria	106.4	–	9	106.4
Azerbaijan	–	369.2	12	369.2
Bahamas	42.8	–	5	42.8
Bangladesh	46.1	9,140.8	161	9,186.9
Barbados	103.2	–	11	103.2
Belarus	170.2	–	3	170.2
Belgium	76.0	–	4	76.0
Belize	71.8	–	8	71.8
Benin	–	696.3	47	696.3
Bhutan	–	41.9	7	41.9
Bolivia	299.3	1,564.4	74	1,863.7
Bosnia and Herzegovina	–	547.6	25	547.6
Botswana	280.7	15.8	26	296.5
Brazil	27,412.9	–	249	27,412.9
Bulgaria	1,210.1	–	18	1,210.1
Burkina Faso	1.9	902.2	50	904.1
Burundi	4.8	694.0	47	698.8
Cambodia	–	343.4	11	343.4
Cameroon	1,294.4	1,025.0	69	2,319.4
Cape Verde	–	146.4	14	146.4
Caribbean region	89.8	47.7	7	137.5
Central African Republic	–	403.5	24	403.5
Chad	–	622.2	36	622.2
Chile	3,585.9	19.0	60	3,604.9
China	23,106.3	9,946.7	219	33,053.0
Colombia	8,890.6	19.5	152	8,910.1
Comoros	–	101.7	16	101.7
Congo, Democratic Republic of	330.0	1,151.5	66	1,481.5
Congo, Republic of	216.7	183.6	20	400.3
Costa Rica	888.9	5.5	38	894.4
Côte d'Ivoire	2,887.9	1,802.3	84	4,690.2
Croatia	733.7	–	14	733.7
Cyprus	418.8	–	30	418.8
Czech Republic	326.0	–	2	326.0
Czechoslovakia	450.0	–	1	450.0

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country –
As of June 30, 1999 (*cont'd*)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Denmark	85.0	–	3	85.0
Djibouti	–	75.6	11	75.6
Dominica	3.1	14.1	4	17.1
Dominican Republic	851.0	22.0	30	873.0
East African Community	244.8	–	10	244.8
Eastern Africa region	–	45.0	1	45.0
Ecuador	2,442.6	36.9	71	2,479.5
Egypt, Arab Republic of	4,367.5	1,984.0	102	6,351.5
El Salvador	820.6	25.6	34	846.2
Equatorial Guinea	–	45.0	9	45.0
Eritrea	–	125.4	5	125.4
Estonia	125.7	–	7	125.7
Ethiopia	108.6	2,927.7	73	3,036.3
Fiji	152.9	–	13	152.9
Finland	316.8	–	18	316.8
France	250.0	–	1	250.0
Gabon	227.0	–	14	227.0
Gambia	–	213.2	26	213.2
Georgia	–	509.6	22	509.6
Ghana	207.0	3,502.8	103	3,709.8
Greece	490.8	–	17	490.8
Grenada	3.8	8.8	2	12.7
Guatemala	1,058.1	–	34	1,058.1
Guinea	75.2	1,129.2	56	1,204.4
Guinea-Bissau	–	234.9	21	234.9
Guyana	80.0	302.8	28	382.8
Haiti	2.6	626.5	37	629.1
Honduras	717.3	978.6	55	1,695.9
Hungary	4,302.0	–	39	4,302.0
Iceland	47.1	–	10	47.1
India	25,828.1	26,161.3	401	51,989.4
Indonesia	27,043.9	1,067.2	288	28,111.1
Iran, Islamic Republic of	2,058.1	–	39	2,058.1
Iraq	156.2	–	6	156.2
Ireland	152.5	–	8	152.5
Israel	284.5	–	11	284.5
Italy	299.6	–	8	399.6
Jamaica	1,326.0	–	62	1,326.0
Japan	862.9	–	31	862.9
Jordan	1,882.0	85.3	65	1,967.3

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country – As of June 30, 1999 (*cont'd*)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Kazakhstan, Republic of	1,679.1	–	20	1,679.1
Kenya	1,200.0	2,870.8	119	4,070.8
Korea, Republic of	15,647.0	110.8	120	15,757.8
Kyrgyz Republic	–	500.0	18	500.0
Lao People's Democratic Republic	–	576.0	27	576.0
Latvia	314.9	–	14	314.9
Lebanon	783.5	–	15	783.5
Lesotho	155.0	292.0	28	447.0
Liberia	156.0	114.5	35	270.5
Lithuania	293.3	–	11	293.3
Luxembourg	12.0	–	1	12.0
Macedonia, FYR of	205.5	293.8	17	499.3
Madagascar	32.9	1,743.4	80	1,776.3
Malawi	124.1	1,854.1	75	1,978.2
Malaysia	4,150.6	–	87	4,150.6
Maldives	–	47.3	6	47.3
Mali	1.9	1,241.5	59	1,243.4
Malta	7.5	–	1	7.5
Mauritania	146.0	512.7	45	658.7
Mauritius	413.1	20.2	34	433.3
Mexico	30,009.6	–	169	30,009.6
Moldova	302.8	146.0	15	448.8
Mongolia	–	175.7	11	175.7
Morocco	8,435.3	50.8	126	8,486.1
Mozambique	–	1,812.0	33	1,812.0
Myanmar	33.4	804.0	33	837.4
Nepal	–	1,557.5	70	1,557.5
Netherlands, The	244.0	–	8	244.0
New Zealand	126.8	–	6	126.8
Nicaragua	233.6	754.5	47	988.1
Niger	–	816.6	45	816.6
Nigeria	6,248.2	902.9	98	7,151.1
Norway	145.0	–	6	145.0
OECS countries	3.6	2.4	1	6.0
Oman	157.1	–	11	157.1
Org. of Eastern Caribbean States	14.1	5.5	1	19.6

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country – As of June 30, 1999 (*cont'd*)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Pakistan	6,614.2	5,468.1	191	12,082.3
Panama	1,179.8	–	42	1,179.8
Papua New Guinea	597.0	113.2	38	710.2
Paraguay	807.9	45.5	42	853.4
Peru	5,053.6	–	82	5,053.6
Philippines	10,666.4	294.2	155	10,960.6
Poland	4,969.4	–	30	4,969.5
Portugal	1,338.8	–	32	1,338.5
Romania	5,195.8	–	58	5,195.8
Russian Federation	11,721.5	–	42	11,721.5
Rwanda	–	869.4	48	869.4
Samoa	–	14.4	1	14.4
São Tomé and Príncipe	–	58.9	8	58.9
Senegal	164.9	1,702.4	90	1,867.3
Seychelles	10.7	–	2	10.7
Sierra Leone	18.7	403.7	25	422.4
Singapore	181.3	–	14	181.3
Slovak Republic	135.0	–	2	135.0
Slovenia	168.2	–	4	168.2
Solomon Islands	–	45.9	7	45.9
Somalia	–	492.1	39	492.1
South Africa	287.8	–	12	287.8
Spain	478.7	–	12	478.7
Sri Lanka	210.7	2,271.2	83	2,481.9
Saint Kitts and Nevis	1.5	1.5	1	3.0
Saint Lucia	8.5	11.2	3	19.7
Saint Vincent and the Grenadines	1.4	6.4	2	7.8
Sudan	166.0	1,352.9	56	1,518.9
Swaziland	104.8	7.8	14	112.6
Syrian Arab Republic	613.2	47.3	20	660.5
Taiwan, Province of China	329.4	15.3	18	344.7
Tajikistan	–	180.3	10	180.3
Tanzania	318.2	3,101.6	109	3,419.8
Thailand	7,579.1	125.1	123	7,704.2
Togo	20.0	733.5	42	753.5
Tonga	–	5.0	2	5.0
Trinidad and Tobago	313.6	–	21	313.6
Tunisia	4,423.7	74.6	114	4,498.3
Turkey	13,770.5	178.5	135	13,949.0
Turkmenistan	89.5	–	3	89.5

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country – As of June 30, 1999 (*cont'd*)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Uganda	8.4	2,714.4	71	2,722.8
Ukraine	2,821.8	–	16	2,821.8
Uruguay	1,640.7	–	44	1,640.7
Uzbekistan	434.0	–	9	434.0
Vanuatu	–	15.4	4	15.4
Venezuela	3,293.1	–	38	3,293.1
Vietnam	–	2,354.6	24	2,354.6
Western Africa region	6.1	52.5	4	58.6
Western Samoa	–	46.6	8	46.6
Yemen, Republic of	–	1,630.9	114	1,630.9
Yugoslavia	6,114.7	–	90	6,114.7
Zambia	679.1	2,115.7	72	2,794.8
Zimbabwe	983.0	656.9	35	1,640.1
Bank-wide total	338,583.5	115,883.0	7,406	454,415.5

ANNEX 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 1999, by Country – July 1, 1998 – June 30, 1999

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Borrower or guarantor				
Albania	–	125.0	5	125.0
Argentina	3,226.1	–	8	3,226.1
Armenia	–	120.6	4	120.6
Azerbaijan	–	79.5	4	79.5
Bangladesh	–	1,020.7	6	1,020.7
Benin	–	25.5	1	25.5
Bolivia	–	186.8	4	186.8
Bosnia and Herzegovina	–	163.0	6	163.0
Brazil	1,686.1	–	8	1,686.1
Bulgaria	160.8	–	3	160.8
Burkina Faso	–	20.2	2	20.2
Cambodia	–	75.3	3	75.3
Cameroon	–	28.2	1	28.2
Cape Verde	–	48.6	1	48.6
Chad	–	40.9	1	40.9
Chile	160.5	–	3	160.5
China	1,674.4	422.6	19	2,097.0
Colombia	142.0	–	2	142.0
Côte d'Ivoire	?	75.6	1	75.6
Croatia	108.3	–	2	108.3
Djibouti	–	17.5	1	17.5
Dominican Republic	111.1	–	1	111.1
Egypt, Arab Republic of	345.0	205.0	6	550.0
Ethiopia	–	100.0	1	100.0
Gabon	5.0	–	1	5.0
Gambia, The	–	35.0	2	35.0
Georgia	–	136.6	7	136.6
Ghana	–	281.8	5	281.8
Guatemala	167.0	–	5	167.0
Guinea	–	55.4	4	55.4
Guyana	–	9.0	1	9.0
Honduras	–	283.7	3	283.7
India	400.0	654.8	7	1,054.8
Indonesia	2,605.1	422.6	11	2,741.1
Jordan	210.0	–	3	210.0

ANNEX 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 1999, by Country – July 1, 1998 – June 30, 1999 (cont'd)

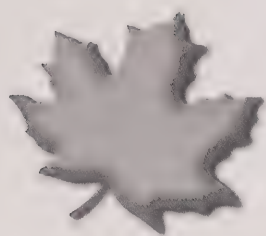
	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Kazakhstan, Republic of	175.5	–	4	175.5
Kenya	–	40.0	1	40.0
Korea, Republic of	2,048.0	–	2	2,048.0
Kyrgyz Republic	–	61.5	3	61.5
Lao People's Democratic Republic	–	29.8	2	29.8
Latvia	58.6	–	4	58.6
Lesotho	–	21.0	1	21.0
Lithuania	20.1	–	1	20.1
Macedonia, FYR	32.0	90.0	5	122.0
Madagascar	–	131.4	3	131.4
Malawi	–	193.0	4	193.0
Malaysia	404.0	–	3	404.0
Mali	–	40.0	1	40.0
Mauritania	–	30.8	3	30.8
Mexico	949.9	–	2	949.9
Moldova	–	66.1	3	66.1
Mongolia	–	12.0	1	12.0
Morocco	440.0	–	6	440.0
Mozambique	–	176.0	3	176.0
Nepal	–	17.5	2	17.5
Nicaragua	–	118.6	3	118.6
Niger	–	82.6	2	82.6
Org. of Eastern Caribbean States	14.1	5.5	1	19.6
Pakistan	350.0	90.0	2	440.0
Panama	150.3	–	3	150.3
Peru	338.0	–	2	338.0
Philippines	723.3	–	5	723.3
Poland	327.0	–	3	327.0
Romania	340.0	–	4	340.0
Russian Federation	1,930.0	–	3	1,930.0
Rwanda	–	80.0	2	80.0
Samoa	–	14.4	1	14.4
Senegal	–	117.4	2	117.4
Slovenia	15.0	–	1	15.0
Solomon Islands	–	12.0	1	12.0
Sri Lanka	–	29.0	1	29.0

ANNEX 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 1999,
by Country – July 1, 1998 – June 30, 1999 (*cont'd*)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Tajikistan	–	93.4	5	93.4
Tanzania	–	40.0	1	40.0
Thailand	1,300.0	–	3	1,300.0
Togo	–	5.0	1	5.0
Trinidad and Tobago	14.8	–	1	14.8
Tunisia	194.0	–	2	194.0
Turkey	528.0	–	3	528.0
Uganda	–	164.8	5	164.8
Ukraine	600.0	–	2	600.0
Uruguay	92.5	–	2	92.5
Uzbekistan	55.0	–	2	55.0
Venezuela	80.7	–	2	80.7
Vietnam	–	308.3	4	308.3
Yemen, Republic of	–	181.5	5	181.5
Zambia	–	212.8	2	212.8
Bank-wide total	22,182.3	6,811.8	276	28,994.1

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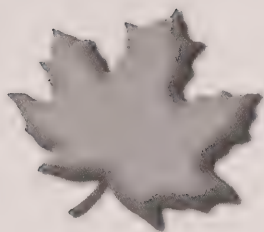
OPERATIONS UNDER

THE BRETTON WOODS

AND RELATED

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REPORT ON

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2000

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INTRODUCTION

The Bretton Woods institutions – the International Monetary Fund (IMF or the Fund) and the World Bank – were founded at a conference held in Bretton Woods, New Hampshire, in 1944. The IMF was established to promote the smooth functioning of the international monetary system, encourage international trade and support high rates of sustainable economic growth. The IMF has become a central institution in the international monetary system. It exercises a surveillance function by monitoring members' economic policies, provides policy advice and extends short- and medium-term financial assistance to countries faced with balance of payments difficulties.

The World Bank's goal is to reduce poverty by raising living standards and promoting sustainable development in developing countries. As the premier development institution in the world, it provides a wide range of assistance to developing countries, including lending and technical assistance for projects that promote sustainable growth and an improved quality of life, and structural economic policy advice. The World Bank Group comprises four organizations: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation and the Multilateral Investment Guarantee Agency. The IBRD and IDA together are commonly referred to as the "World Bank" (or the "Bank" in the following). IDA is the component that provides assistance to the world's poorest developing countries.

Canada is the eighth largest member of the IMF, along with China, after the six other Group of Seven (G-7) countries and Saudi Arabia, and it is the sixth largest member of the World Bank. Canada also represents Ireland and a number of Caribbean countries at the IMF and the World Bank.¹ Canada's formal participation in the two institutions is authorized under the Bretton Woods and Related Agreements Act. Section 13 of the Act states that:

The Minister of Finance shall cause to be laid before Parliament, on or before March 31 next following the end of each calendar year or, if Parliament is not then sitting, on any of the first thirty days next thereafter that either House of Parliament is sitting, a report containing a general summary of operations under this Act and details of all those operations that directly affect Canada, including the resources and lending of the World Bank Group, the funds subscribed or contributed by Canada, borrowings in Canada and procurement of Canadian goods and services.

¹ At the IMF, Canada represents 10 Caribbean countries: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. In addition to these countries, Canada represents Guyana at the World Bank.

This report has been prepared in accordance with this provision. The sections that follow review the activities and operations of first the IMF and then the World Bank for the year 2000. A final section deals with issues common to both institutions. The annexes contain detailed numerical summaries of the year's activities.

Roles of the International Monetary Fund and World Bank

International Monetary Fund

- Oversees the international monetary system and promotes international monetary co-operation.
- Promotes orderly exchange rate relations among member countries.
- Provides short- to medium-term financial support to members facing balance of payments difficulties.
- Draws its financial resources primarily from the quota subscriptions of its members.

World Bank

- Provides support for poverty reduction through investments in health and education.
- Promotes economic development and structural reform in developing countries.
- Assists developing countries through long-term financing of development projects and programs.
- Provides special financial assistance to the poorest developing countries through the International Development Association.
- Stimulates private enterprise development and private investment in developing countries primarily through its affiliates, the International Finance Corporation and the Multilateral Investment Guarantee Agency.
- Secures most of its financial resources by borrowing on international capital markets.
- Enhances the flow of capital and technology for productive purposes to developing countries by providing investment insurance against non-commercial risks for investments in developing countries.

INTERNATIONAL MONETARY FUND

Overview

As a major trading nation, Canada has a significant interest in efforts to promote a strong international monetary system that facilitates the free movement of goods, services and financial assets. The IMF promotes international financial stability and economic growth through the provision of policy, financial and technical assistance to countries experiencing unsustainable external imbalances and related economic difficulties.

Benefits of Membership

IMF membership provides a number of specific benefits:

- The Minister of Finance is a Governor of the Fund and elects an Executive Director to its 24-member Executive Board. This representation allows Canada to have high-level influence on decisions taken by the IMF on specific country assistance programs and major policy issues affecting the world financial system.
- The IMF, through its regular surveillance of the Canadian economy, provides Canada with an independent source of policy advice on macroeconomic policies and engages in regular dialogue on these policies with Canadian officials at the Department of Finance, other government agencies and the Bank of Canada.
- The efforts of the IMF to make sure that countries abide by their obligations, including those under Fund-supported programs, help ensure that they repay Canadian bilateral loans and use our bilateral development assistance effectively.
- Canada earns a market rate of return on its financial position in the IMF.
- Were Canada to experience severe balance of payments difficulties, it would have the right to draw on IMF financial assistance.

How the IMF Works

The IMF works like a credit union. It has a large pool of resources provided by its members that it makes available to help members finance temporary balance of payments problems.

Members provide resources to the IMF in amounts determined by “quotas” reflecting each country’s relative importance in the world economy. A country’s quota in turn helps determine the amount of Fund resources that it may use if it experiences economic difficulties. At the end of 2000 the total quotas for the Fund’s 183 members was SDR 210.7 billion.¹

A member country uses the general resources of the IMF by making a purchase (drawing) of other members’ currencies with an equivalent amount of its own currency. A member repurchases (repays) its own currency from the IMF with other members’ currencies over a specified period of time, with interest. In this way, a member country receives credit from other members.

Members seeking financial assistance can draw on a “reserve tranche” and four “credit tranches,” each amounting to 25 per cent of their quota. For access to resources beyond the first credit tranche, the member and the IMF have to reach an agreement on a set of economic measures and reforms aimed at removing the source of the country’s balance of payments difficulty and creating the conditions necessary for sustainable non-inflationary growth.

Depending on the prospective duration of the problem, these measures are agreed to as part of a Stand-By Arrangement, which typically lasts 12 to 18 months, or an Extended Fund Facility, which generally runs for three years. Emergency financing for countries in crisis situations that could spill over to other countries is also available through the Supplemental Reserve Facility, created in December 1997. A precautionary line of defence is available through Contingent Credit Lines, established in February 1999, to countries that are pursuing sound policies but are nonetheless vulnerable to contagion.

Members can also use financial facilities created for specific purposes, including the Compensatory Financing Facility, which provides financial support to members experiencing temporary export shortfalls or other unforeseen adverse external shocks.

Concessional financing to low-income developing countries under the Poverty Reduction and Growth Facility (formerly the Enhanced Structural Adjustment Facility) is made available in the form of low-interest loans with extended maturity periods.

¹ The SDR (special drawing right) is the standard unit of account for the IMF’s operations. It represents a weighted basket of four major currencies – the US dollar, the Japanese yen, the pound sterling and the euro. At the end of 2000 the exchange rate was SDR 1 = C\$1.99.

Canada's Priorities at the IMF

Global Economic and Financial Stability

In its early years the Fund helped members address short-term balance of payments problems originating in the current account with a blend of financing and adjustment. But over time the Fund's role has evolved in response to a changing world economy, which has led to new problems, such as balance of payments problems with structural origins that require a longer period of adjustment. More importantly, the dismantling of capital controls has led to a sharp increase in the importance of private cross-border capital flows. The financial crises that have affected a number of emerging market countries since mid-1997 revealed weaknesses in the international financial system and underscored the need to reform the global financial architecture – the global institutions and rules that govern international economic and financial co-operation. The Fund itself faces the significant challenge of trying to prevent and resolve capital account crises.

The past year witnessed a number of studies and proposals to increase the effectiveness of the IMF in a world of large-scale private capital flows. In addition, the IMF/World Bank meetings last year in Washington and Prague took place against the background of large-scale protests about globalization and the role of the international financial institutions. These protests reflect, in part, the perception that while greater economic and financial integration generates enormous economic benefits, the global economy is not benefitting all countries or all groups within countries. Recognizing the need to address these concerns, there was strong support at these meetings to make globalization work for the benefit of citizens in every corner of the world, including the poorest and most vulnerable. The Fund, working in partnership with the World Bank, is viewed as uniquely placed to contribute to this global effort.

In co-operation with its international partners, Canada has played an active role in identifying areas where reforms are required and in taking steps to implement those reforms. In 1999 G-7 finance ministers made a number of recommendations intended to strengthen the international financial system, help reduce the risk of financial crises, and make it easier to manage future crises more effectively. This was followed by the G-7 Finance Ministers' Report to Leaders on strengthening the international financial architecture, released in July 2000 in Fukuoka, which outlined proposals to guide further work on IMF reform in the areas of strengthened surveillance, implementation of international standards and codes, reform of IMF facilities, and IMF governance.

The new Managing Director of the IMF, Horst Köhler, also emphasized the need to articulate a vision for the future role of the IMF to guide work on IMF reform. He called for a more focused role for the institution, concentrating in particular on promoting macroeconomic and financial stability.

A key objective for Canada is to ensure that the Fund is capable of promoting international financial stability. To meet this objective, the key priorities for reform should be:

- the development of an appropriate framework for private sector involvement in crisis prevention and resolution;
- the development of more effective IMF conditionality through a sharper focus on factors relevant to a country's macroeconomic and financial stability; and
- an increase in Fund accountability and transparency.

In line with these priorities, Canada supports:

- **strengthened surveillance** to prevent crises through greater attention to financial vulnerabilities and increased transparency of information;
- **implementation of international codes and standards**, with the IMF playing the lead role in assessing countries' observance;
- **reform of IMF facilities** to achieve a streamlined structure that encourages countries to seek private sources of capital and discourages excessively long or large use of IMF resources;
- **new procedures to safeguard IMF resources** to ensure that they are used for their intended purposes;
- **strengthened governance and accountability of the IMF** through a review of the quota determination process and the creation of an independent evaluation office; and
- **appropriate private sector involvement** in the prevention and resolution of crises.

Canada continues to place a high priority on **reducing poverty** and ensuring that debt relief does indeed go to this purpose. The IMF plays a crucial role in supporting macroeconomic stability – as a key tool for poverty reduction – in the poorest countries and integrating its efforts with those of the World Bank in working with countries to reduce poverty.

The Fund's involvement in the key areas outlined above, and Canada's priorities related to these efforts, are described in more detail in the section entitled "Efforts to Promote International Financial Stability," which follows the next section.

Economic and Financial Developments in Emerging Markets

Emerging market economies generally registered strong growth through much of 2000 against the backdrop of a relatively favourable external economic environment. Global economic conditions deteriorated late in the year, however, owing in large part to an economic slowdown in the U.S. Through 2000, international financial institutions continued to play an important role in promoting sound economic policies and providing emergency financial support, as demonstrated by the two emergency financial assistance packages put together by the IMF for Argentina and Turkey late in the year.

After experiencing robust growth during the first half of the year, Asian economies started to weaken in the latter part of 2000, reflecting political and economic uncertainties and a deterioration in the external environment. In the Philippines financial markets weakened dramatically as political uncertainty and the deteriorating fiscal situation continued to weigh on investor sentiment. Higher oil prices, falling technology stock prices and the slow pace of corporate restructuring began to weigh on the South Korean economy in the second half of the year. In China, on the other hand, inward foreign investment picked up in anticipation of its World Trade Organization accession in 2001.

In Indonesia the IMF approved a three-year US\$5.0-billion Extended Fund Facility program in February 2000. In addition, the World Bank, the Asian Development Bank and bilateral donors pledged US\$4.7 billion in assistance. However, after three disbursements, the IMF program was put on hold due to a disagreement on the timing and content of key reforms.

Overall, Latin American countries in 2000 continued to rebound from the financial market problems of 1998 and early 1999, helped by strong world demand and higher commodity prices. However, there were large divergences in economic growth rates throughout the region. Brazil, Chile and Mexico enjoyed strong recoveries, while Argentina, Venezuela and Colombia struggled to emerge from recession.

In Argentina financial market sentiment deteriorated in late 2000 owing to continuing weak economic growth as well as increased political uncertainty. Political developments also led investors to become increasingly concerned about the passage of the 2001 budget. In December the IMF and the Argentine authorities responded to the financial difficulties by arranging an IMF-led financial assistance package totalling US\$39.7 billion. Argentina's existing three-year precautionary Stand-By Arrangement was activated and augmented. The package also included loans from the World Bank and Inter-American Development Bank, bilateral assistance from Spain, and financing from the private sector in the form of rollovers of existing debt and new bond purchases.

In Turkey banking sector problems and the government's response to those problems threatened to precipitate a crisis in the broader economy in late 2000. In December the IMF approved a financial assistance package for Turkey totalling US\$7.5 billion, adding to the US\$2.9 billion remaining to be disbursed under the Stand-By Arrangement approved in December 1999. At the same time the World Bank approved up to US\$5 billion in lending to Turkey over the next three years. The Turkish authorities also held meetings with private sector creditors to encourage them to roll over Turkish debt obligations.

The economic situation in Russia improved considerably in 2000, largely as a result of high oil prices and the effects of the sharp ruble devaluation following the 1998 financial crisis. Russia's IMF program, which was suspended in December 1999 because of missed structural benchmarks, expired in December 2000. As a result, Russia made a net repayment of about US\$2.9 billion to the Fund in 2000, although it remains the Fund's largest creditor with around US\$11.6 billion in outstanding loans as of December 31.

IMF-Led Packages for Emerging Economies

Contributions (in billions of US dollars)

Donor	Indonesia	Turkey	Argentina
IMF	5.0	7.5	14.0
(% quota)	(175%)	(600%)	(500%)
Type of program and approval date	Three-year Extended Fund Facility (February 2000)	Supplemental Reserve Facility (December 2000)	Three-year Stand-By Arrangement,* Supplemental Reserve Facility (December 2000)
Other international financial institutions	4.7**	5.0	5.0
Bilateral			1.0
Private sector			20.0
Total	9.7	12.5	39.7

* The three-year precautionary Stand-By Arrangement approved in March 2000 was activated and augmented in December.

**Includes bilateral contributions.

Efforts to Promote International Financial Stability

Strengthening Surveillance to Prevent Crises

There is a consensus in the international community that strong surveillance must be at the centre of the IMF's efforts to strengthen the world economy and the international financial architecture. In light of globalization and the related phenomenon of large-scale private capital flows, the IMF needs to shift the nature and scope of its surveillance. The G-7 Finance Ministers' Report to Leaders called on the IMF to continue to:

- sharpen its focus on macroeconomic policy, capital flows and structural issues, which have an impact on macroeconomic stability, particularly in the financial sector, and on exchange rates;
- develop and publish financial sector vulnerability indicators. The Fund is committed to paying more attention to vulnerabilities arising from debt and reserve management, and will continue to work to develop an analytical framework for assessing vulnerability; and
- promote transparency and the flow of information. In a key decision, the Fund recently agreed on a set of principles for its publication policy, and authorized the publication of a broad range of documents, including the voluntary publication of IMF staff reports and other country papers.

Canada has continually supported measures to enhance the transparency and accountability of the Fund's own operations. Prior to the most recent decision, the Fund had responded to the concerns of members regarding transparency by making available significantly more information on its activities. The key initiatives include:

- The public now has access to IMF Executive Board documents that are more than 5 years old and other archival material that is more than 20 years old. At Canada's instigation, last year the Fund began to release summaries of the IMF's work program to help increase the public's awareness of Fund activities. Canada continues to press for further liberalization of archival material.
- The Fund has adopted a policy establishing a presumption in favour of publication of Letters of Intent and other documents that underpin Fund-supported programs.
- Since 1997 the IMF has released Public Information Notices (PINs), which provide background information on a member country's economy and the IMF's assessment of the country's policies and prospects. PINs are issued at the country's request following the conclusion of the Fund's regular Article IV consultation with the country. Canada's most recent PIN can be found on the IMF Web site at <http://www.imf.org/external/country/CAN/index.htm>. An increasing number of countries have agreed to the publication of PINs. The Fund is also issuing PINs on policy papers and regional economic reviews.

- The Fund also encourages countries to publish the “mission statements” that are prepared at the time of the IMF’s annual Article IV consultations with member countries. Prior to the preparation of the staff’s report to the Executive Board, the IMF mission often provides the authorities with a statement of its preliminary findings at the conclusion of its discussions with the authorities. A number of countries, including Canada, are now releasing these statements. Canada’s most recent Article IV report can be found on the IMF Web site at <http://www.imf.org/external/country/CAN/index.htm>.

Implementation of International Codes and Standards

The international community has called upon the IMF and other standard-setting agencies to develop standards and codes covering a number of economic and financial areas to help improve economic policy making and strengthen the international financial system. The Fund is responsible for its core areas of expertise. For example, in 1998 the Fund adopted a Code of Good Practices on Fiscal Transparency to guide member countries in enhancing the accountability and credibility of fiscal policy. In 1999 the Fund adopted a similar code with respect to monetary and financial policies. Other institutions, such as the World Bank, Organisation for Economic Co-operation and Development and Basle Committee, take responsibility for other areas, including insolvency regimes, corporate governance and banking supervision.

In terms of assessing compliance, the Financial Stability Forum has highlighted 12 key codes and standards (in the areas of macroeconomic policy and data transparency; corporate governance; and financial regulation and supervision) as key for sound financial systems and deserving priority implementation depending on country circumstances. To enhance credibility, both the G-7 and Group of Twenty (G-20) have encouraged countries to articulate publicly their adoption of standards, announce their plans of action and participate in IMF-led assessment programs.

There is a general consensus that the IMF has a key co-ordinating role in assessing observance of codes and standards through its Reports on the Observance of Standards and Codes (ROSCs), as well as through the joint IMF-World Bank Financial Sector Assessment Programs (FSAPs). Over 30 countries have committed to undertake ROSC modules, and the IMF and the World Bank recently agreed to expand the FSAP program. Recent developments regarding the FSAP program are covered in the “Joint Issues” section.

With respect to ROSCs, the Fund has developed a modular approach whereby comprehensive assessments of members’ adherence to a range of internationally recognized standards can be built up over time, standard by standard. ROSCs summarize the extent to which countries observe these standards, focusing primarily on the areas of direct operational concern to the

IMF such as data dissemination and fiscal transparency. ROSC modules for the financial sector are now being derived as a by-product from the FSAP process. Canada was the first country to publicly release as a ROSC the assessment of compliance with international standards conducted during its FSAP. Canada's ROSCs can be found on the IMF Web site at <http://www.imf.org/external/np/rosc/can/index.htm>. Overall, as of December 2000, 83 ROSC modules had been produced for 32 countries.

Financial Stability Forum

The Financial Stability Forum was established in April 1999 to promote international financial stability through enhanced information exchange and international co-operation in financial market supervision and surveillance. The Forum is well placed to promote this objective as it regularly brings together senior officials from finance ministries, central banks and financial sector supervisory bodies from countries with significant financial centres, as well as representatives of the international supervisors, the Bank for International Settlements, the IMF and the World Bank. The Forum has the role of identifying gaps in the regulation of financial systems and developing solutions to address these vulnerabilities.

At its October 25, 2000, meeting in Montréal, the G-20 agreed on the importance of international codes and standards to reduce countries' vulnerability to financial crises, and endorsed the Financial Stability Forum's recommendations. The G-20 countries reaffirmed their commitment, made at the inaugural meeting of G-20 ministers and governors in Berlin in December 1999, to undertake the completion of ROSCs and FSAPs.

Group of Twenty

The Group of Twenty (G-20) was established in the fall of 1999 to ensure broader participation in discussions on international financial affairs among countries whose size or strategic importance gives them a particularly crucial role in the global economy. The G-20 consists of finance ministers and central bank governors from 19 industrialized and emerging market countries, and representatives from the European Union, the European Central Bank, and the IMF and the World Bank and their policy committees. Canada's Minister of Finance, Paul Martin, was named the first chair of the G-20.

Following the 1995 Halifax Summit the Fund initiated work on new data standards to better inform markets of financial and economic developments and to strengthen Fund surveillance. Countries that are capital market borrowers are now making comprehensive data available to the public on a timely basis under the IMF's Special Data Dissemination Standard (SDDS) established in April 1996. Information on the statistical practices of members subscribing to the new standard is posted on the IMF's Dissemination Standards Bulletin Board (DSBB) on the Internet (<http://dsbb.imf.org/>). Canada was one of the first countries to subscribe to the new standard, and information on Canada's statistical practices is posted on the DSBB at <http://dsbb.imf.org/country/cancats.htm>.

In 1999 the Fund strengthened the SDDS by requiring the disclosure of additional information on international reserves on a monthly basis, with weekly disclosure of key reserve assets to be encouraged. A data template on international reserves was developed by the Fund in co-operation with the Committee on the Global Financial System of the Group of Ten (G-10) central banks. The template covers information on the amount and composition of reserve assets, other foreign assets held by the central bank and the government, short-term foreign liabilities, and related activities that can lead to demand on reserves (such as financial derivatives positions and guarantees extended by the government for private borrowing). In July 1999 Canada became one of the first countries to disseminate the additional data required by the expanded standard. Moreover, Canada currently exceeds the reporting standard by releasing key data on its international reserves on a weekly basis. The Fund reviewed progress under the SDDS in March 2000, and a new external debt category with quarterly data disclosure has been incorporated into the standard. Subscribing countries have a three-year transition period, ending in March 2003, to implement the new data category.

Reform of IMF Facilities

A major achievement at the Fund in 2000 was the reform of the IMF's non-concessional lending facilities. The objective of the review exercise was to adapt the Fund's financial operations to better reflect the changing nature of the global economy. In March 2000 the Fund agreed to eliminate a number of little used and obsolete facilities and to streamline the Compensatory Financing Facility. Further discussions were held to secure more fundamental "renovations" to ensure more effective use of IMF resources and shift the focus of Fund lending toward crisis prevention. In November 2000 agreement was reached on a streamlined structure of lending facilities that aims to encourage countries to seek private sources of capital and discourage excessively long or large use of IMF resources. The key changes are:

- The **Contingent Credit Lines facility**, which was established in 1998 to provide members that meet strict eligibility criteria with a precautionary line of defence against external contagion, and which has not been used, was enhanced by making resources more readily available. The interest rate charged has been reduced by halving the initial surcharge over the standard rate of charge to 150 basis points and reducing the commitment fee that applies to larger Fund arrangements. In addition, monitoring under the Contingent Credit Lines will be less intensive than under other arrangements.
- The terms of **Stand-By Arrangements** (the Fund's core lending instrument to address temporary payments imbalances) and the **Extended Fund Facility** (the Fund's facility for protracted balance of payment problems) have been adapted to encourage countries to avoid reliance on Fund resources for unduly long periods or in unduly large amounts.
- The problem of unduly long use of Fund resources will be addressed through the introduction of schedules of early repurchase expectations, under which members able to repay before the final maturities of their loans will be expected to do so.
- Interest surcharges have been added for the use of Fund resources above high levels of credit outstanding (i.e. above 200 per cent of quota) to discourage unduly large access.
- Use of the Extended Fund Facility will be confined to those cases where there is a reasonable expectation that a member's balance of payments difficulties will be relatively long-term, including because it has limited access to capital markets. In contrast to recent practice, the strength of the structural reform effort per se will not be considered sufficient reason for use of Extended Fund Facility resources. It is expected that the Extended Fund Facility would be especially appropriate for graduating Poverty Reduction and Growth Facility low-income countries and some transition economies that do not have access to capital markets.
- To provide additional safeguards for Fund resources, and to help ensure that the achievements of arrangements are preserved, it has been agreed there should be more formal **post-program monitoring** by the IMF of economic developments and policies following the expiration of arrangements. A presumption of more formal post-program monitoring would apply for members with substantial credit outstanding at the end of an arrangement.

An important feature of IMF arrangements is the "conditionality" that borrowing countries undertake to correct the underlying balance of payments problem and to restore their ability to repay the Fund. The implementation of conditionality has evolved in response to changes in the world economy and that of the IMF's members. In particular, Fund conditionality has developed to reflect changes in adjustment needs and goals. Fund programs have broadened beyond traditional macroeconomic management to include structural or efficiency issues and the social dimensions of economic policies.

While this may have been appropriate in some cases, a number of concerns have been expressed about the impact and effectiveness of this conditionality. Critics generally contend that Fund conditionality has enjoyed only a moderate degree of success; programs stray outside the Fund's areas of expertise; conditionality has become over-extended, particularly in the area of structural policies; and borrowing countries may never take "ownership" of the programs.

The G-7 Finance Ministers' Report to Leaders emphasized that Fund conditionality should be focused and address issues of macroeconomic relevance. IMF Managing Director Köhler has acknowledged there has been a widening in the scope of the IMF's activities. He noted that ownership and implementation are promoted when the Fund's conditionality focuses on what is crucial for the achievement of macroeconomic stability and growth. Further, he noted that program design should take into account the social dimensions of adjustment programs and the unique characteristics of each country. At its meeting last fall in Prague, the International Monetary and Financial Committee – the IMF's ministerial advisory body – encouraged the Fund to streamline and focus conditionality to improve the quality of Fund programs and enhance program ownership. As follow-up, the Fund will be reviewing the conditionality issue in the coming months.

Safeguarding IMF Resources

Clear cases of misreporting of information and misuse of IMF resources are rare, but recurring allegations of misuse of IMF resources and misreporting in 1999 and early 2000 pointed to the need for the Fund to reassess the adequacy of its existing procedures to safeguard its resources. The IMF viewed such allegations and incidents with concern, as they represent a threat to the credibility and integrity of the institution. Aided by a panel of outside experts, who provided an independent assessment of staff proposals, in early 2000 the Fund adopted a multifaceted approach to strengthening the safeguards on the use of IMF resources. Central banks of member countries making use of Fund resources will have to publish annual financial statements, independently audited in accordance with internationally accepted audit standards.

A two-stage process was also introduced. In the first stage, the central bank of a country seeking a new IMF arrangement would be asked to provide the Fund with information and documentation related to its internal control and external auditing procedures, and provide access to its independent auditors. If the central bank's control, reporting and auditing mechanisms appear sound at this stage, no further steps would be undertaken. Otherwise, a second stage would involve on-site review, including by outside experts from recognized international accounting firms, and possibly technical assistance to improve control mechanisms. These measures are an important complement to existing safeguards provided through program design; conditionality and

monitoring; the transparency and governance initiatives, including the establishment and monitoring of codes and standards; and legal procedures to address cases of misreporting. The procedures and tools to address misreporting of information were also broadened and strengthened.

Strengthening Governance and Accountability

Better information on the activities of the IMF contributes to greater public understanding of the institution. In addition to supporting measures to enhance the transparency and accountability of the IMF, one of Canada's priorities is the promotion of good governance. The Fund adopted guidelines in 1997 on its role in issues of governance and is more actively emphasizing the links between poor governance and weak economic performance. With respect to transparency and accountability, in the past year the IMF:

- Initiated the regular publication of information (the quarterly financial transactions plan) on the sources of financing for IMF lending. The IMF has been encouraged to explore ways to simplify its financial accounting to make its financial operations and statements more understandable to the public.
- Established an independent evaluation office, a policy that Canada has advocated for some time. Canada's representative on the IMF Executive Board, Thomas A. Bernes, chaired a Board committee that recommended the new unit and developed its terms of reference. Although the Fund has been conducting independent evaluations on an experimental basis since 1996, some member governments and public interest groups proposed that the IMF establish a more systematic evaluation of its operations and policies. The new evaluation office, which will undertake objective assessments of the IMF's operations, policies and programs, is expected to become operational later this year.
- Established a Code of Conduct to provide the Executive Directors of the 24-member Executive Board, and their Alternates and Advisors, with guidance on ethical standards in carrying out their roles and responsibilities in the IMF. The Code mandates regular financial disclosure reports and underlines the importance of the observance of the highest standards of ethical conduct.
- Approved a more systematic and transparent approach to adjusting the remuneration of the Managing Director, as recommended by a Board working group chaired by Canada's Executive Director. In addition, details on the total remuneration of IMF management will be published in the IMF's annual report.

In addition, the Fund is increasingly posting draft papers on important policy issues on its Web site so that the views of civil society and other segments of the public can be taken into account.

It is also important that the IMF decision-making structure remain accountable. The key challenge is to make IMF quotas more reflective of developments in the world economy and to ensure that Fund governance arrangements are representative of the membership. The report of an external experts group on the quota calculation process was reviewed by the Fund last summer, and IMF staff were asked to undertake additional work on the formulas that are used to help determine members' quotas. The Fund is expected to review the results of this work later this year. In the meantime agreement was recently reached to increase China's quota in order to better reflect its position in the global economy following the resumption of Chinese sovereignty over Hong Kong.

How to Access Information at the IMF

A vast array of Fund information – including fact sheets, press releases, speeches, the *IMF Survey*, annual reports, world economic outlooks, staff country reports, and working papers – is available on the Fund's Web site at <http://www.imf.org/>. In addition, the IMF's Publications Services provides a wide variety of Fund documents on the policies and operations of the IMF as well as world financial and economic developments:

- IMF annual reports
- *World Economic Outlook*
- *International Capital Markets*
- IMF staff country reports
- *International Financial Statistics*
- *Annual Report on Exchange Arrangements and Exchange Restrictions*
- press releases
- *IMF Survey*

Publications Services is located at 700 – 19th Street N.W., Washington, DC 20431, USA. Phone: (202) 623-7430; fax: (202) 623-7201. Internet e-mail address: publications@imf.org.

Private Sector Involvement in Crisis Prevention and Resolution

Ensuring that private investors are appropriately engaged in the prevention and resolution of international financial crises is generally agreed to be a critical aspect of ongoing initiatives to adapt the international financial architecture to reflect today's world of large-scale private capital flows. Indeed, an approach where the official sector shoulders the burden of financing the massive outflow of capital characteristic of recent financial crises is neither

sustainable, given that the scale of private capital flows dwarfs the resources of the official sector, nor is it desirable, as it serves to distort the assessment of risk and return in international capital markets and encourages destabilizing lending decisions.

Over the past two years Canada has been outspoken on this issue and believes that the IMF has an important role to play in establishing an operational framework for improved private sector involvement in crisis management. This reflects the IMF's position at the centre of the international financial system and, more importantly, the fact that it has a number of mechanisms at its disposal (such as its ability to lend into arrears to private creditors) that could facilitate a more orderly and co-operative resolution of international payment problems. Discussions by the IMF Executive Board regarding the principles and modalities of private sector involvement have intensified over the past year, and encouraging progress has been made in outlining a broad set of operational guidelines.

This progress is reflected in the April 2000 International Monetary and Financial Committee communiqué, which elaborated on a Fund approach to those cases where the early restoration of market access on terms consistent with medium-term external sustainability is judged unrealistic and a debt restructuring or debt reduction is deemed necessary. This is clearly an encouraging step forward, but Canada attaches priority to articulating aspects of the framework that as yet remain undefined. This is particularly true with regard to the steps the official sector should take if a voluntary resolution of payment problems is not forthcoming.

Poverty Reduction and Debt Relief

Canada places a high priority on reducing poverty and ensuring that debt relief does indeed go to this purpose. Although the World Bank is the central institution for poverty reduction, macroeconomic stability – a key condition for achieving poverty reduction and growth – is the responsibility of the IMF. In conjunction with the enhanced debt reduction scheme for heavily indebted poor countries, and as part of its contribution to the global anti-poverty effort, the IMF replaced its concessional facility, the Enhanced Structural Adjustment Facility, with the more focused Poverty Reduction and Growth Facility in 1999. As a consequence, direct anti-poverty measures are playing a central role in programs supported by the IMF, World Bank and other lenders. Programs supported by the Poverty Reduction and Growth Facility (and the World Bank's concessional window – the International Development Association) are being framed around a comprehensive, nationally owned Poverty Reduction Strategy Paper prepared by the borrowing country and based on a process involving the participation of civil society, non-governmental organizations, donors and international institutions. The Fund's role in this area is covered more extensively in the "Joint Issues" section and in the World Bank report.

Lending Developments in 2000

A core activity of the Fund is to provide short- and medium-term financial assistance to members faced with balance of payments difficulties. The objective is to enable countries facing such difficulties to correct temporary payments imbalances with a minimum of disruption to the international monetary system. The provision of financing from the IMF, as well as the additional financing that an arrangement with the Fund often attracts from other sources, enables countries to undertake smoother economic adjustment.

At the end of 2000 the IMF had lending arrangements worth SDR 44.2 billion in place for 57 member countries (see Annex 1). Drawings by these countries in 2000 decreased to SDR 7.7 billion as demand for Fund resources continued to ease from the exceptionally high level experienced in 1998. The reduction in lending reflected the relatively favourable global economic and financial conditions throughout most of the year and the continuing recovery of some member countries from the severe crises that affected their economies in 1998. Turkey received the largest disbursement, drawing SDR 1.7 billion under the Supplemental Reserve Facility, the Fund's short-term lending facility that addresses crisis situations, and SDR 0.9 billion under a Stand-By Arrangement. Indonesia received the largest amount under the Extended Fund Facility – SDR 0.8 billion. As in the previous year, repurchases (repayments) exceeded purchases in 2000, in large part due to repayments from countries that had drawn large amounts during past financial crises. Brazil and Russia made large repayments, as did Mexico, which repaid all its obligations to the IMF.

Table 1
IMF Resource Flows

	1999	2000
	(in SDR billions)	
Total purchases	10.8	7.7
Of which:		
Stand-By Arrangements	7.5	5.8
Extended Fund Facility	1.9	1.3
Compensatory Financing Facility	0.7	0.0
Poverty Reduction and Growth Facility	0.7	0.5
Other	0.0	0.1
Total repurchases	19.4	15.8
Net repurchases	-8.6	-8.1

Lending decreased slightly under the IMF's concessional facility, the Poverty Reduction and Growth Facility. No drawings were made under the Compensatory Financing Facility, one of the Fund's other special-purpose facilities, which was streamlined and rationalized in early 2000.

Managing Canada's Interests at the IMF

The Minister of Finance is Canada's Governor at the IMF and is responsible for the management of Canadian interests at the Fund. The Minister exercises influence on IMF issues through Canada's Executive Director at the Fund's Executive Board, interventions at the spring and fall meetings of the International Monetary and Financial Committee, his plenary speech at the IMF and World Bank annual meetings, and periodic meetings with the Managing Director of the Fund (the Minister's speeches are available on the Department of Finance Web site at <http://www.fin.gc.ca/>). The Governor of the Bank of Canada is Canada's Alternate Governor of the IMF. The Governor also attends the Fund's spring and fall meetings.

The management of Canada's interests in the ongoing work of the IMF is the responsibility of the Executive Director, Thomas A. Bernes, Canada's representative on the Executive Board. He is one of 24 Executive Directors. In addition to Canada, he represents 11 other countries (Ireland and 10 Caribbean countries), which form a constituency at the Executive Board. Of the 24 members of the current Executive Board, 12 are from developing or transition countries and 12 from industrialized countries. As the main decision-making body of the Fund, the Board normally meets three times a week.

The Department of Finance co-ordinates Canadian policy advice on IMF issues and Canada's operational interests in the IMF. The Bank of Canada also works closely with the Department of Finance in providing advice on issues of interest to Canada's Executive Director. Other involved government organizations include the Department of Foreign Affairs and International Trade and the Canadian International Development Agency. Within the Department of Finance, the Finance Minister's Meetings Secretariat and the International Finance and Economic Analysis Division are specifically responsible for conducting analyses and preparing advice on the policy issues and specific country programs that are brought before the Executive Board. The Department and Canada's Executive Director's office also work closely with Canada's World Bank Executive Director's office and meet frequently with Canadian non-governmental organizations.

Parliament is informed of the activities and operations of the Bretton Woods institutions through the tabling of the annual report on their operations, the communiqués of the International Monetary and Financial Committee and the Development Committee, and appearances of the Canadian Executive Directors and departmental officials before parliamentary committees.

Canada's Voting Record

Since most decisions at the Fund are taken on a consensus basis, formal votes by Governors and the Executive Board are rare. Canada attempts to influence the development of Fund policy proposals before they are brought to the Board (often through the circulation of memoranda outlining Canadian positions) or to influence other members in the course of Board discussions. But in 2000 Canada voted against an increase in the remuneration of IMF Executive Directors and abstained on a vote to increase IMF staff salaries. Canada also abstained on a decision on Rwanda's heavily indebted poor country debt relief package and did not support the restoration of Sudan's voting and related rights in the IMF (related to the country's protracted arrears to the Fund) in August 2000, considering it premature to lift the suspension.

Canada's Office at the IMF

In addition to the Executive Director, Canada's office is staffed by two Canadian advisors and a technical assistant. Ireland staffs the Alternate Director's position and the Caribbean countries staff a third advisor's position.

The primary responsibility of the Executive Director's Office is to represent the interests of Canada and the other members of the constituency at the Fund's Executive Board. The office participates in the Board's discussions of a wide variety of policy, operational and administrative matters, including surveillance issues and country assistance requests and reviews.

Canadian Members of the Executive Director's Office

Executive Director:	Thomas A. Bernes
Canadian Advisor:	Jeffrey Allen Chelsky
Canadian Advisor:	Paul Fenton
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Canada's Financial Participation

Canada's financial participation in the IMF consists primarily of its quota subscription. Canada's quota following the increase associated with the Eleventh Review is SDR 6,369.2 million, or about 3 per cent of total quotas. Canada's quota subscription is a government asset, which is made available to the Fund partly in Canadian dollars and partly in reserve currencies, such as US dollars or SDRs. These latter non-Canadian dollar amounts continue to be part of Canada's foreign exchange reserves. As an asset, Canada's quota subscription is not recorded as an expenditure item in the budget of the Canadian government.

Only a tiny portion of the Canadian dollar part of its subscription is actually held in cash by the IMF. The balance is held by the Bank of Canada in the form of demand notes, which are available to the Fund in the event it needs to draw upon additional resources. Canada earns interest on its quota subscription when the Canadian dollar is used in Fund lending operations, i.e. drawn by other member countries. In 2000 Canada received SDR 72.9 million on its net creditor position in the IMF. The net income from Canada's net creditor position with the Fund is paid into the Government of Canada's Exchange Fund Account, adding to the foreign exchange reserves.

Table 2

Canada's Financial Position in the IMF

	December 31, 2000	December 31, 1999
	(in SDR millions)	
Quota	6,369.2	6,369.2
Fund holdings of Canadian dollars	4,443.4*	4,061.3*
Reserve position in the Fund	1,925.8**	2,307.9**

* In accordance with Fund regulations, at least 0.25 per cent of Canada's quota is held by the IMF in a Canadian dollar cash deposit at the Bank of Canada. The Fund's remaining Canadian dollar holdings are in the form of non-interest-bearing demand notes, also kept by the Bank of Canada.

**This is the amount Canada is entitled to draw on demand from the IMF for balance of payments purposes. Canada's reserve position in the Fund is the result of the portion of Canada's quota subscription made available to the Fund over time in reserve currencies, the use of the Canadian dollar in Fund financial transactions with other members, and loans to the IMF under borrowing arrangements such as the General Arrangements to Borrow and New Arrangements to Borrow. As the name suggests, Canada's reserve position in the Fund is a part of Canada's official foreign exchange reserves.

Special Drawing Rights

- The special drawing right (SDR) is an international reserve asset created by the IMF and allocated periodically to its members as a supplement to their foreign currency and gold reserves.
- A general SDR allocation requires a determination by the IMF Board of Governors that there is a global need to supplement existing reserve assets.
- SDRs were first allocated to members in 1970. There have been two other general allocations, the most recent undertaken in 1981. The outstanding stock of SDRs currently totals SDR 21.4 billion.
- In September 1997 IMF Governors approved a special one-time allocation of SDR 21.4 billion that will ensure that all members receive an equitable share of cumulative SDR allocations (the amendment to ratify the allocation has not yet been accepted by a sufficient majority of members).
- Canada has received allocations totalling SDR 779.3 million. Following the special one-time allocation, Canada's allocations will increase to SDR 1,266.5 million.

At the end of the year Canada's holdings of SDRs amounted to SDR 440.6 million, or 56.5 per cent of Canada's cumulative allocation of SDRs. In 2000 Canada held SDRs in an amount lesser than its allocation, and so paid net interest of SDR 16.0 million.²

Last year, in line with earlier commitments, Canada made further contributions to the IMF's Poverty Reduction and Growth Facility, formerly the Enhanced Structural Adjustment Facility. The facility provides financial support on concessional terms to low-income countries facing protracted balance of payments problems. In April 2000 the Government authorized an additional SDR 200 million of new lending to the facility. Canada's total commitment to the Poverty Reduction and Growth Facility is a loan of SDR 700 million and a grant of approximately SDR 190 million. At the end of 2000 loan payments under these arrangements totalled SDR 487 million of the SDR 700 million, and subsidy contributions equalled SDR 150.5 million of the SDR 190 million.

Further, Canada is a participant in a financing arrangement established to supplement the Fund's regular resources in the event of financial crises, the New Arrangements to Borrow (NAB), which was not activated in 2000 (see box next page). Canada is also a participant in the General Arrangements to Borrow (GAB), an earlier credit arrangement established by the G-10. Canada's GAB commitment is the equivalent of SDR 892.5 million. This line of credit was not used in 2000.

² When a member's holdings of SDRs is greater (lesser) than its cumulative allocation, that member (the Fund) receives interest on the difference.

New Arrangements to Borrow

The following are the main features of the NAB, which came into force in 1998:

- Participating countries will make loans to the IMF when supplementary resources are needed to forestall or cope with an impairment of the international monetary system, or deal with an exceptional situation that poses a threat to the stability of the system.
- Twenty-five countries have agreed to lend up to SDR 34 billion (about C\$68 billion) to the Fund in the case of financial emergencies.
- Canada's share in the arrangement is 4.1 per cent, in the form of a commitment to provide non-budgetary loans to the IMF from its international reserves.
- The NAB does not replace the GAB, which will remain in force. However, the NAB will be the first and principal recourse of the IMF in the event of a need for supplementary resources.

Challenges Ahead

A key challenge for the Fund is to ensure that its mission meets the needs of an increasingly integrated global economic system. The evolution of the Fund's place in the international financial system must continue to reflect changes in the world economy. In particular, there is a need to assess the role of the Fund in a world of large-scale private capital flows. To meet these challenges:

- The Fund should continue to work in partnership with the World Bank and other global institutions to help countries adopt the policies that will enable them to benefit from globalization. The Fund is well placed to help ensure that the benefits of globalization are as widely shared as possible.
- The Fund also needs to enhance the ownership and implementation of Fund-supported programs. These objectives can be promoted when the Fund's conditionality focuses predominantly on the measures that are needed to achieve macroeconomic stability and growth and pays due respect to a country's specific circumstances and implementation capacity.
- The Fund should work to make IMF quotas more reflective of developments in the world economy and ensure that Fund governance arrangements are representative.

WORLD BANK

Overview

Membership in the World Bank affords Canada an important voice on key development issues in the world's premier multilateral development bank. With 182 members,³ and loans and credits outstanding to 88 developing and transition member countries in fiscal year (FY) 2000 (ending June 30, 2000), the World Bank has a far-reaching impact on global development and poverty reduction. In addition, it provides policy advice and financial support crucial to improving members' longer-term development and poverty reduction prospects. It also assists members, both developing countries and countries in transition from planned to market economies, by providing concessional assistance and improved access to world financial markets for development purposes. In over 50 years of existence the World Bank has provided nearly US\$470 billion in loans to the developing world (see Annex 3).

In FY 2000 the World Bank (International Bank for Reconstruction and Development [IBRD]/International Development Association [IDA]) committed loans and credits of about US\$15.0 billion to developing and transition countries (see Annex 2). This amount was considerably below the FY 1999 total of US\$29.0 billion and the FY 1992-97 average of US\$21.5 billion. This decrease was mostly attributable to the 50-per-cent fall in IBRD (the World Bank's non-concessional loan window for middle-income countries) lending and reflected significantly lower Bank adjustment lending to countries in East Asia, particularly to the financial sector in the region, as these economies recovered from the effects of financial crises. IBRD lending fell to US\$10.9 billion in FY 2000, compared to US\$22.2 billion in FY 1999.

With the countries of East Asia recovering from the financial crisis of 1997-98, the geographic and operational focus of the Bank's lending activities has shifted. East Asia accounted for only US\$1.5 billion in Bank lending in FY 2000 (or 10 per cent of total lending), down from US\$8.8 billion in FY 1999 (or 30 per cent of total lending). While East Asia registered the largest regional decline in Bank lending, volumes fell in all geographic regions except Africa. Lending to a wider group of "crisis" borrowers (Argentina, Brazil, Indonesia, the Republic of Korea, Russia and Thailand), which had accounted for US\$13 billion in Bank lending in FY 1999 (or 45 per cent of total lending), fell to US\$1.8 billion in FY 2000 (or 12 per cent of total lending). This fall in demand for IBRD financing can be explained by the increasing access to private capital that many of these economies have regained since 1998. While the Latin American and Caribbean region accounted for the largest regional share of Bank loans, Turkey and China were the largest and second largest individual Bank borrowers in FY 2000.

³ San Marino joined as the 182nd member of the World Bank on September 21, 2000. At the time of publication, the Federal Republic of Yugoslavia (FRY) was negotiating its membership application with the World Bank. Membership will depend on an agreement to settle the FRY's share of the outstanding debt to the World Bank arising from the membership of the former Socialist Federal Republic of Yugoslavia.

The Bank still plays a role in providing support to countries in financial difficulty. A rapid deterioration in Turkey's financial situation in November 2000 led to increased adjustment lending to that country late in the calendar year. In December 2000 (at the end of the first half of the Bank's 2001 fiscal year), the Bank approved US\$5 billion in adjustment lending to Turkey for the December 2000 to June 2003 period. This adjustment lending will support efforts to create employment, protect and expand social services, and improve public sector and environmental management.

However, with significantly decreased overall demand from crisis-affected countries, the Bank is now refocusing on its central goal of supporting poverty reduction. The Bank's operations are being geared increasingly to assisting developing countries meet the International Development Goals to halve world poverty by 2015. These targets were adopted following a number of international conferences during the 1990s and were endorsed by world leaders at the Millennium Summit in September 2000.

The lower volume of total Bank lending operations in FY 2000 was also a reflection of a change in the nature of the projects being financed by the Bank. In line with its increasing stress on a comprehensive approach to supporting country-led poverty reduction strategies, Bank operations are moving away from large-scale infrastructure projects and are focusing more on smaller operations that support institution building and human development (i.e. education, health, nutrition, social protection, civil service reform and improved governance). This shift is reflected in smaller average Bank loans. In FY 2000 the Bank approved, on average, loans of US\$69 million compared to US\$93 million in FY 1990.

In contrast to its falling lending volumes, in FY 2000 the Bank increased its emphasis on non-lending services in order to enhance the aid effectiveness of its operations. The Bank provides a wide range of advisory, analytical, training and knowledge-related services in support of building domestic capacities. Through its non-lending activities, the Bank provides valuable policy advice that can bolster the effectiveness of its investment and adjustment lending.

FY 2000 was the final year of the three-year Strategic Compact between Bank management and shareholders, which was approved by the Executive Board on March 31, 1997, and provided a US\$250-million increase in budgetary resources for a 30-month period in support of an ambitious program to refocus the Bank's activities on support for country-driven poverty reduction initiatives. The Strategic Compact aimed to make the Bank more responsive to shareholders. Reflecting management's commitment under the Strategic Compact to return to pre-Compact levels, the Bank's administrative budget for FY 2000 was US\$1.445 billion, or US\$106 million lower than FY 1999. In June 2000 Executive Directors approved a total administrative budget for FY 2001 of US\$1.442 billion.

World Development Report 2000-2001

In mid-2000 the Bank released the *World Development Report 2000-2001: Attacking Poverty* (WDR), which is a landmark study of the causes of and possible approaches to combatting poverty. Building on the Bank's last comprehensive assessment of poverty that was published in 1990, the WDR extends the analysis of poverty reduction beyond the impact of economic growth and examines the impacts of more equitable distribution of opportunities. The WDR concludes that, to combat poverty effectively, developing countries need to develop strategies that go beyond the promotion of labour-intensive growth and human capital development. They need to focus on the broader institutional context and address structural inequalities and social barriers to disadvantaged groups (e.g. the very poor, women and minorities) that perpetuate poverty within countries.

The WDR proposes, at the country level, a general framework for action based on three pillars:

- promoting economic opportunities for the poor through equitable growth, better access to markets and expanded assets;
- facilitating empowerment by making state institutions more responsive to the poor and removing social barriers that exclude women, ethnic minorities and the socially disadvantaged; and
- enhancing security by preventing and managing economy-wide shocks and providing mechanisms to reduce the vulnerability of the poor.

Beyond country actions, the WDR concludes that international actions are also required to promote poverty reduction. These would entail actions to promote international financial stability and lessen the risks of financial crises; ensure that technological, scientific and medical innovation benefit poor countries; reduce developing country debt; ease the administration of Official Development Assistance; improve access to developed country markets; and increase the voice of developing countries in international fora.

How the World Bank Group Works

The World Bank Group is made up of four complementary but distinct entities: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA) and the International Finance Corporation (IFC).

The IBRD and IDA (together commonly known as the World Bank) both provide funding for investment projects and for adjustment – or economic reform – operations. The IBRD lends funds on commercial terms (charging an interest rate that is slightly above its own borrowing costs) to the better-off borrowing members, while IDA provides interest-free credits to the poorest borrowers. The IBRD gets its funds primarily from borrowing on international markets, on the basis of its triple-A credit rating. In effect, the IBRD on-lends to borrowing countries at a rate of interest much lower than that which they could secure on their own borrowings. IDA, on the other hand, receives grant funding from donors and other sources, including World Bank net income. As of June 2000 the outstanding IBRD loans and IDA credits amounted to US\$120.1 billion and US\$85.2 billion, respectively.

The IFC supplements the activities of the IBRD and IDA by undertaking investments on commercial terms in productive private sector enterprises. The IFC provides such services as direct private sector loans, equity investments, resource mobilization and technical assistance. As of June 2000 the total outstanding loans and equity investment of the IFC were equivalent to nearly US\$11 billion. MIGA's mandate complements that of the IFC: it promotes private foreign direct investment in developing countries, primarily by providing insurance against non-commercial risk, such as the risk of currency inconvertibility during civil conflict. MIGA's outstanding portfolio as of June 2000 amounted to US\$4.4 billion.

Benefits of Membership

- Canada's voting share of about 3 per cent in the World Bank gives it a seat on the Bank's 24-member Executive Board and on the joint IMF/World Bank Development Committee. Canada has the opportunity, both at the Executive Board and in discussions with Bank staff, to provide direct input into the formulation of Bank policies and operational decisions. Canada and other shareholders help to guide the Bank in improving developing countries' economic, social and environmental performance. Given the Bank Executive Board's constituency representation system, the Executive Director for Canada also represents Ireland and 11 Caribbean countries. The Canadian Executive Director is the only G-7 representative on the World Bank board that represents a heavily indebted poor country (HIPC) (Guyana).
- Participation in the Bank affords an opportunity to influence international development policy issues of concern to Canadians. Canada is a leading voice at the Board of Directors' discussions on the implementation of the enhanced HIPC debt initiative, as well as at the policy discussions that led to establishing a closer link between the HIPC debt initiative and poverty reduction goals.
- Canada benefits from the Bank's leadership role in bringing together donors to respond quickly to emergency situations in countries in post-conflict situations. The World Bank provided Canada with a forum for working with other donors to establish a common position to deal with the financial crises in emerging markets. In the context of the Middle East peace process, Canada has been closely involved with the Bank's efforts to mobilize resources for the West Bank and Gaza. Through our engagement with the World Bank, Canada's influence in the developing world can be leveraged beyond what could be achieved through its bilateral programs.
- Canada benefits from the role the World Bank plays in bringing together donors for Consultative Groups (CGs) to provide assistance to specific countries in need. Through CGs, donor countries are able to better co-ordinate their policy advice and operational programs to provide more coherent advice to borrowers and to maximize the impact of their operations. Last year the World Bank participated in 25 separate CGs and donor groups. The Canadian International Development Agency (CIDA) and other donors also benefit from the Bank's co-ordination of major international programs, such as the Strategic Partnership with Africa. This co-ordination process is now being enhanced through the Poverty Reduction Strategy Papers and the Comprehensive Development Framework of the Bank.
- The Canadian government is able to draw on the Bank's research and policy work to enrich its understanding of international development. Consultation with Bank managers and analysts allows CIDA staff to draw on the Bank's significant analytical and technical expertise, gain a more comprehensive understanding of the social and economic policy environment in recipient countries and situate Canadian bilateral assistance appropriately.
- Finally, Canadian companies and individuals enjoy substantial procurement benefits from Canada's membership in the World Bank Group. Disbursements in FY 2000 for Canadian goods and services totalled US\$95 million, bringing total cumulative disbursements to more than US\$3.7 billion.

Supporting Country-Led Development and Poverty Reduction Strategies

Over the past year the Bank has continued to assimilate into its operations the principles of country-led development that underpin the Comprehensive Development Framework (CDF). The Bank continued with the 12 CDF pilot cases in 2000.⁴ Under the pilots national authorities formulate a long-term strategic vision that seeks to incorporate social, structural and institutional factors into national development strategies. The CDF pilots have sought to use national consultative processes to promote ownership of development programs among governments and civil society stakeholders. While the 12 CDF pilots showed uneven progress in FY 2000, some non-pilot countries initiated more comprehensively based development strategies, and within the Bank there was a continuing shift in development strategy away from project-based planning to country-based planning. An even more dramatic development, however, has been the rapid evolution of Poverty Reduction Strategy Papers (PRSPs) into more comprehensive statements of national development policy. The PRSPs were originally conceived in 1999 as a comprehensive policy mechanism to link HIPC debt relief more closely with poverty reduction initiatives. In drafting PRSPs, developing country governments are working towards the types of widely based consultative processes and broader development planning that underpin the CDF.

As an example of the Bank's new approach to supporting nationally driven poverty reduction initiatives, in January 2001 the Bank approved loans of US\$60 million and US\$30 million for Nigeria and Senegal respectively. These loans were provided to the national governments and local communities to help boost their capacity to implement poverty reduction initiatives by working together to develop community-based initiatives for basic social and economic infrastructure.

The main challenges of the CDF and PRSP approach are: enhancing the institutional capacity of the developing country governments to both plan and implement comprehensive poverty reduction strategies; ensuring governments are willing and able to sustain, over the medium and longer term, commitments to good governance and the principles of the CDF; ensuring an appropriate balance between CDF/PRSP consultative processes and the legitimate mandate of elected officials in recipient countries to set strategic priorities and to make decisions; and enhancing donor co-ordination.

This shift in Bank operations to support country-owned development and poverty reduction strategies is partially reflected in the continuing high level of adjustment lending in overall Bank financing.⁵ While the share of adjustment lending fell to 41 per cent of overall Bank lending in FY 2000, compared to 63 per cent in FY 1999 (when the mechanism was used to provide social and financial sector support to crisis countries), adjustment lending is used

⁴ The countries and regions covered under the CDF pilot are: Bolivia, Côte d'Ivoire, the Dominican Republic, Eritrea, Ethiopia, Ghana, the Kyrgyz Republic, Morocco, Romania, Uganda, Vietnam and the West Bank/Gaza.

⁵ An "adjustment loan" is a rapidly disbursing lending instrument used by the Bank to provide support for a government's structural reform program. The bulk of the Bank's total lending operations, however, are in the form of "investment loans," which are disbursed over the medium- to long-term implementation periods of specific development projects.

to support sector-wide reforms and restructuring in a number of areas. Sector-wide and adaptable lending programs support efforts by developing countries to address complex and interrelated problems in a sector or sub-sector. A sector-wide approach encourages donor co-ordination and partnership, and potentially reduces the cost to government of dealing with multiple development agencies. Bank sector-wide and adaptable program lending have expanded considerably. In the Africa region sector-wide and adaptable lending now account for 35 per cent of Bank loans. In sectoral terms, most of the Bank's adjustment lending supports public sector management, financial sector reforms and improved governance.

In its FY 2000 annual report on the development effectiveness of Bank activities, the Operations Evaluation Department (OED), the independent unit that assesses Bank operations, judged that the adjustment lending outcomes strengthened during the 1990s. OED attributes this steady improvement to the incorporation of lessons from early Bank experiences with adjustment lending, including increased attention to borrower ownership, fewer loan conditions, and increased use of single tranche operations that disburse on the basis of policy actions taken, rather than on the basis of policy commitments. OED also attributes the improvement in the development effectiveness of adjustment lending to the increased focus in Bank operations on countries that are committed to and implementing good policies.

To ensure that poverty reduction remains at the heart of the Bank's operations, the Poverty Reduction and Economic Management Network (PREM) was established in 1997. PREM, which is charged with developing an overall approach to poverty evaluation, advises Bank country teams on the poverty reduction impacts of emerging policies, programs and individual projects. Country-specific poverty assessments continue to provide valuable support for the Bank's poverty reduction efforts. Given a stronger emphasis on strengthening rule of law, PREM is also developing institutional and governance assessments to be incorporated into Country Assistance Strategies. In FY 2000 the Bank completed 10 country poverty assessments, which covered roughly one-third of the world's poorest people. However, the quality of poverty data is uneven, and the Bank continues to work to improve the consistency of these assessments.

Global Public Goods

Issues that affect poverty reduction are not restricted to the country level. Responding to requests from shareholders, the Bank has become much more active, in co-operation with other multilateral and bilateral agencies, in addressing development challenges that cross national frontiers through the promotion of "global public goods." Five broad areas of global public goods were endorsed by the Development Committee in 2000 for potential support from the World Bank. The areas identified were financial and economic governance; trade; communicable and infectious diseases such as HIV/AIDS; the global environment; and information and knowledge. In FY 2000 the Bank increased its operational focus on combatting infectious disease, and HIV/AIDS in particular.

The Bank Helps Countries to Fight HIV/AIDS

HIV/AIDS is no longer only a public health issue: the high infection rates in developing countries are killing or incapacitating many of the most productive individuals in these economies and have transformed the disease into a development crisis that threatens economic and social stability. In the hardest-hit countries, most of which are in Sub Saharan Africa, HIV/AIDS threatens to reverse all of the development gains achieved over the last 30 years. Some 24 million people, or 8.6 per cent of the population of Sub Saharan Africa, are infected. By the end of FY 2000 the Bank had committed more than US\$1 billion for 99 HIV/AIDS-related projects in 56 countries. HIV/AIDS programming is likely to rise in the near future as more countries turn to the Bank for technical and financial assistance. The Bank is committed to dramatically increasing the level of its HIV/AIDS response. At the April 2000 meeting of the Development Committee, the Bank stressed that it would provide substantial support for well-designed national HIV/AIDS programs.

In FY 2000 the Bank put in place a number of HIV/AIDS programs, including IDA's Multi-Country HIV/AIDS Program for Africa (MAP). The MAP is an innovative, fast-disbursing and flexible US\$500-million loan framework facility for prevention and treatment throughout the continent. Sub-projects for Kenya, Ethiopia and Ghana have already been approved under the MAP, with additional sub-projects for Uganda, Cameroon and Gambia expected to be ready for consideration in early 2001. A separate HIV/AIDS project that supports health sector reform in Kenya was also approved in 2000. The Bank has also committed to HIV/AIDS prevention projects in Bangladesh, the Caribbean countries, Asia (especially India) and Russia.

Other transnational issues that the Bank is focusing on include environmental protection and natural disaster response. Bank support has taken the form of direct financing as well as research and advocacy and advisory services, capacity building, standard setting, donor co-ordination activities and resource mobilization. Specific examples of Bank support for global public goods include its partnership with the Joint United Nations Programme on HIV/AIDS and the Global Alliance for Vaccines and Immunization in Sub Saharan Africa. Another example is its partnership with other international agencies, donor governments and private organizations in the persistent organic pollutants (POPs) trust fund, which was established in 2000 with funding from a variety of donors, including CIDA, to help developing countries. In March 2000 CIDA and the World Bank established a \$20-million POPs trust fund that will support capacity building in developing and transition economies to reduce or eliminate releases of POPs. Financial stability is another important global public good, and the Bank has launched the Global Development Network to support the sharing of information and views from a worldwide network of research and policy institutes on issues such as competition strategies and corporate governance.

The Bank is also increasing its efforts to catalyze private sector support for development and poverty reduction programs. In FY 2000, in co-operation with the United Kingdom and Japanese governments, the World Bank launched a multidonor technical assistance facility – the Public-Private Infrastructure Advisory Facility (PPIAF) – to help developing countries improve the quality of their infrastructure through private sector involvement. The PPIAF channels technical assistance to developing countries and identifies, disseminates and promotes best practices on private sector involvement in infrastructure. In FY 2000 the PPIAF approved grants of over US\$15 million for some 70 separate activities.

Consultation and Information Disclosure

Consultations with civil society, organized by national governments, are a cornerstone of the Poverty Reduction Strategy Papers. For its part, the Bank has been expanding its own consultations with civil society groups on its own policies and procedures. In FY 2000 the Bank conducted consultations with civil society and with national and international non-governmental organization (NGO) representatives on a wide range of operational issues, including natural disaster responses, social sector intervention and long-term development initiatives. To promote greater dialogue with national and international NGOs, the Bank organized a series of briefings for NGOs at the Bank/Fund spring and annual meetings in 1999 and 2000, which covered topics such as HIPC, civil society engagement in the Comprehensive Development Framework, and the Bank's independent Inspection Panel.

Over the past eight years the Bank has steadily expanded the categories of information that it makes available to the public. For instance, all Country Assistance Strategies for IDA countries are released as are, among others, Board documents related to the HIPC debt initiative, project information documents, and environmental assessments of high-risk projects. However, with shareholders calling for increased transparency in all international financial institutions, combined with the introduction of a number of new categories of documents as well as more recent concern about the scope of the application of the Bank's disclosure policy, in 2000 the Bank initiated a review of its information disclosure policy. The preliminary results of this review were presented to Executive Directors in mid-2000; a draft information disclosure policy document was posted on the Bank's Web site and global public consultations on the draft policy were initiated. These consultations are expected to close at the end of March 2001, at which time a final policy will be drafted and presented to the Executive Board for consideration.

The Bank's draft information disclosure policy continues to be based on the premise of disclosure, subject to certain minimum constraints (such as those needed to protect confidential or proprietary information received from third parties, the integrity of the deliberation process and the personal privacy of Bank staff). The draft policy proposes to expand the categories of

documentation that would be released to the public, such as Transitional Support Strategies for post-conflict countries, safeguard assessments, evaluation documents, operational memoranda and the Board Chairman's concluding remarks following discussion of documents that are themselves subject to disclosure. The proposed policy would also open documents in the Bank's archives following a 20-year waiting period, subject to safeguards to protect confidential and private information. The draft policy proposes an assumption of disclosure of information concerning the Bank's approach to resettlement plans and indigenous peoples development plans. The proposed policy, however, stops short of requiring public disclosure of IBRD Country Assistance Strategies. Disclosure of these documents is proposed to remain at the discretion of the governments of the country concerned.

In 2000 Bank staff, Bank Executive Directors and Canadian government officials were closely engaged with NGOs on the issue of the Bank's involvement in two specific Bank projects: the Chad-Cameroon petroleum development and pipeline project and the Qinghai provincial component of the China: Western Poverty Reduction Project. In the case of the former, NGOs expressed concern about the openness of the project consultation process, the potential impact of the project on indigenous populations and the environment, and the commitment of both governments to channelling project revenues to poverty reduction. Similarly, in the latter case, which proposed Bank support for the transfer of some 60,000 poor from densely populated to more sparsely populated regions of Qinghai province, NGOs also expressed concern about the level of consultation undertaken with affected persons as well as the environmental impact of the project.

In the case of the Chad-Cameroon pipeline project, Canada recognized the contribution that petroleum revenues could make to poverty reduction, but took a strong position advocating exceptional World Bank monitoring of the use of petroleum revenues to ensure they are directed to poverty reduction. Along with other shareholders, the Government of Canada made its support for this project conditional on this exceptional monitoring. Both governments accepted this condition and the Board of Directors has begun receiving semi-annual reports on project implementation.

In the case of the Qinghai component of the China: Western Poverty Reduction Project, the Bank was criticized by the independent Inspection Panel for not following its own policies and procedures during project preparation. The government of China withdrew its request for financing after a majority of Bank Executive Directors (including the Executive Director representing Canada) sought Board endorsement of the additional environmental work that the Bank proposed to undertake to address the Inspection Panel's concerns. (The Inspection Panel report on the Qinghai provincial component of the China: Western Poverty Reduction Project is available on the Bank's Web site.)

Improving Co-ordination With Other Agencies

In 1998, at the request of shareholding governments, the Bank and the IMF undertook a frank assessment of their joint work and developed substantive measures to improve mutual co-operation. These measures, which are now being implemented, include a better delineation of responsibilities between the institutions and the establishment of a senior management Liaison Committee charged with enhancing joint Bank/Fund work with relevant international supervisory agencies. Through these closer links, the IMF has been able to benefit from the experience of the Bank in assessing the longer-term development impact of its own structural adjustment lending. Collaboration between the Bank and the Fund has been particularly close in critical financial sector work. These activities are described in detail in the "Joint Issues" section.

Over the past year the World Bank has also worked to deepen its partnerships with regional development banks and other multilateral agencies (including the World Trade Organization and the United Nations Conference on Trade and Development) as well as with bilateral agencies.

- A tripartite consultation mechanism involving the Bank, the IMF and the Asian Development Bank has been established to co-ordinate programs in Asian crisis economies.
- The Bank has signed Memoranda of Understanding with the European Commission, the Council of Europe Development Bank and the European Bank for Reconstruction and Development that cover co-operation among these institutions with respect to activities in Central and East European countries that are candidates for accession to the European Union.
- In a move to enhance World Bank and United Nations co-ordination, the two organizations have formed the "Philadelphia Group" (symbolic of the fact that Philadelphia is halfway between Washington and New York) to share views and work programs in areas of common interest, such as social policy, poverty reduction and governance.
- The Bank co-operated with the IMF, World Trade Organization and several United Nations organizations in establishing the Integrated Framework to help least developed countries effectively participate in the international trading system.
- To strengthen its strategic partnerships with regional development banks, the Bank signed a Memorandum of Understanding with the African Development Bank Group in March 2000 that provides a framework for closer co-ordination of their activities. The Bank is working on similar Memoranda of Understanding with the other regional development banks.

Other World Bank Operations in FY 2000

A) Helping Institutional and Governance Reforms

Strong institutions and good governance are necessary to reduce country vulnerability to crises. They also encourage private investment and promote economic growth and poverty reduction. With its adjustment loans and technical assistance projects, the Bank is supporting various public sector reforms that aim to improve governance by enhancing public accountability and transparency of government agencies. The Bank also provides governments with advice on drafting governance-related laws, including legislation to combat corruption. This work is being supported by extensive Bank analysis of budgetary processes and institutional effectiveness.

In order to enhance the overall transparency and accountability of public sector activities, the Bank, in co-operation with the IMF, supports measures to strengthen public expenditure management systems in borrower countries. A number of countries are seeking Bank assistance in the conversion of military-run industries (China, South Africa and Hungary), while others, including Angola, Rwanda, Cambodia and Sierra Leone, have asked for help with demobilization and demilitarization.

The World Bank Institute (WBI)⁶ is an important delivery instrument for training on governance and anti-corruption issues. Through its public sector reform program, the WBI helps build and implement anti-corruption strategies for those who directly seek Bank support in this area. The WBI has helped nearly 30 countries, including Bolivia, Chile, Ethiopia, Nicaragua, Uganda and Ukraine, to undertake in-depth analyses of institutional and policy weaknesses behind corrupt practices. These analyses are prepared with broad participation of civil society groups and help governments design strategies to combat corruption.

With respect to the corporate sector, the Bank is assisting governments in developing corporate restructuring and bankruptcy frameworks, stronger competition policy, and corporate governance and legal reforms. In co-operation with the IMF, the Bank has intensified its support of financial sector reforms in FY 1999. Having increased the number of in-house experts by 50, the Bank supported governments in improving financial sector supervision and regulation, developing capital markets and training domestic regulators.

⁶ In March 1999, to improve the efficiency of the Bank's education and training programs, the Economic Development Institute was merged with the Bank's Learning and Leadership Centre, with the new institute working under the name of World Bank Institute.

The Toronto Centre

Recognizing the need to strengthen financial sector regulation and supervision in crisis economies, in 1997 the Government of Canada and the World Bank announced the creation of the Toronto International Leadership Centre for Financial Sector Supervision. The Toronto Centre provides experience-based training for senior financial supervisors and regulators in emerging markets. It focuses on the leadership dimension of the supervisory function, offering pragmatic programs based on the premise that experience is the best teacher. Canadian funding for the Toronto Centre has been provided by CIDA and several Canadian banks (Canadian Imperial Bank of Commerce, The Bank of Nova Scotia, Royal Bank of Canada and The Toronto-Dominion Bank). The IMF and the Bank for International Settlements' (BIS') Financial Stability Institute each committed US\$500,000 in financial support to the Centre, while the World Bank has committed US\$1.38 million.

The Toronto Centre added new courses on securities and insurance in 2000 to its regular courses on banking supervision. The Centre also began to offer joint programs with the BIS' Financial Stability Institute in Basle, Switzerland, as well as regionally focused programs. The Centre has also planned several country-specific programs to be held in emerging market countries throughout 2001. In February 2000 David Winfield replaced Paul Cantor as the new Executive Director of the Centre.

The Toronto Centre can be reached through its Web site at <http://www.torontocentre.org/>.

B) Post-Conflict and Emergency Assistance

In 1997 the Bank established a Post-Conflict Fund to provide financing in the early stages of the institution's involvement in post-conflict situations and to promote best practices in conflict prevention. By the end of FY 2000 this fund had provided US\$22 million in grants across 25 countries. This included, for example, financing for teachers' and health workers' salaries in Kosovo, and financing of the international community's initial assessment mission and the start-up of the governance program in East Timor. In countries emerging from conflicts, the Bank's support is designed to facilitate their transition to peace. The Bank helps post-conflict countries rebuild physical infrastructure, reconstruct institutional capacity and put in place key economic reforms.

C) Assisting Small States

In July 1998 the World Bank and the Commonwealth Secretariat established a Joint Task Force on Small States to address small states' special development challenges. The Task Force's final report, *Small States: Meeting Challenges in the Global Economy*, was submitted to the Development Committee at its meeting in April 2000. During this discussion Finance Minister Paul Martin, representing both Canada and 11 Caribbean small states, invited Owen Arthur, Prime Minister of Barbados, to address the

report. Development Committee ministers welcomed the report and noted the recommendation that the circumstances of small states should be taken into account in the policies and programs of multilateral development, trade and finance institutions. They supported the World Bank and IMF proposals for work program activities on small states issues, as set out in the Bank's framework of assistance for small states in the report, and agreed that these could make a valuable contribution in helping small states face their development challenges.

The Task Force report concluded that small states share characteristics that pose challenges to their development (lack of institutional capacity, difficulty in attaining economies of scale in production, limited capacity to diversify risk within their domestic economies) and that addressing these challenges successfully will require co-operation and assistance from multilateral and bilateral development institutions as well as improvements in the external environment. The report identified an ongoing agenda for action and analysis, by small states and the international community, that highlighted four main areas of challenge: tackling volatility, vulnerability and natural disasters; strengthening capacity; addressing issues of transition to the changing global trade regime; and managing new opportunities and challenges arising from globalization.

As part of its small states work program, the World Bank agreed to host an Annual Small States Forum, where small states' representatives can exchange experiences, meet with development partners to assess progress on the small states agenda, and set priorities for future work. The First Annual Small States Forum was held in September 2000 with very broad country representation. Owen Arthur, Prime Minister of Barbados, chaired the event. Representatives of six multilateral institutions – the World Bank, the Commonwealth Secretariat, the IMF, the European Union, the World Trade Organization and the United Nations Conference on Trade and Development – confirmed their commitment to working with small states and to the agenda set out in the Task Force report. The group also agreed to an agenda and overall work plan leading up to the next annual Forum in the fall of 2001. They noted the importance of trade to small-state economies and the need to take small-state concerns into account as the global trading regime develops. They identified addressing volatility and vulnerability as a priority area for the coming year including work on disaster management and mitigation, and catastrophe risk insurance mechanisms. Participants welcomed the focus on reducing transaction costs of accessing donor assistance. They also noted the need for technical assistance to help small states deal with international initiatives on offshore financial centres and harmful tax competition.

Of the 175 developing countries worldwide, 42 are small states. Since Canada represents 11 Caribbean small states at the World Bank, it will continue to work with its Caribbean partners to ensure that the special characteristics and challenges of small states are properly articulated and addressed. Canada has worked hard to ensure that the views, experiences and expertise of the small states themselves are included in the policy development process.

D) Rural Development

The rural sector received roughly 10.5 per cent of total Bank lending in FY 2000. Rural development is critical in pursuing the Bank's poverty reduction objective, with 70 per cent of the world's poor living in rural areas. The Bank's work in rural development is wide-ranging and includes sustainable natural resource management, irrigation, river basin management, rural finance and agricultural research and extension work. The Bank approved a total of 38 projects in FY 2000 that were targeted at the rural sector, totalling US\$1.6 billion. The Bank also works with the Consultative Group on International Agricultural Research, which brings together a network of 16 international agricultural research centres to mobilize the best agricultural knowledge to the developing countries.

International Development Association

IDA is the World Bank Group's concessional lending window. It provides long-term loans at zero interest to the poorest of the developing countries in its mission to reduce their poverty and improve their quality of life. IDA does this by supporting projects that improve their living standards and by promoting equitable access to the benefits of economic development. IDA eligibility is based on an assessment of an individual country's per capita income (in FY 2000 the operational cut-off for IDA eligibility was US\$884 per capita). At the end of FY 2000 China, which has been one of the largest IDA recipients, graduated from IDA's programs given the country's increase in per capita income.

IDA focuses on:

- results – to get the biggest development return from scarce aid resources;
- sustainability – to achieve an enduring development impact within an environmentally sustainable framework; and
- equity – to remove barriers and open up opportunities for the disadvantaged.

In FY 2000 IDA lending commitments totalled US\$4.4 billion for 126 new operations in 52 countries. This represents a 35-per-cent decline in the value of lending commitments made in FY 1999. This fall reflected a confluence of country specific factors (such as renewed conflict in borrowers such as Ethiopia and Eritrea) and the application of performance-based lending criteria for IDA operations. India remained the largest individual country borrower in FY 2000, benefiting from support for poverty alleviation programs, governance and basic social services.

IDA is funded largely by contributions from the governments of the richer member countries and is replenished every three years. The Twelfth Replenishment (IDA 12), which was agreed to in November 1998, will finance projects over the three-year period that began in July 1999. Funding for this replenishment will allow IDA to lend about \$20.5 billion over the period.

Discussions among IDA donors on the priorities and funding levels for the Thirteenth Replenishment (IDA 13), which will cover the FY 2003-05 period, began in early 2001.

IDA resource allocations are based on each recipient country's policy performance. For this purpose, the Bank has developed a rating system based on 20 indicators that reflect performance in three broad policy areas: sustainable growth and poverty reduction, reduction of inequalities, and governance/public sector management.

IDA Priorities

Poverty reduction is the cornerstone of IDA's development efforts. Sound macroeconomic and structural policies, institutional reforms and good governance are essential to achieving a sustainable decline in poverty. In recent years IDA has devoted significant resources to improving the quality and effectiveness of its assistance efforts. The participation of governments, NGOs and civil society is crucial. The degree of borrower ownership and the level of participation by NGOs and civil society have increased substantially through the course of IDA replenishments.

IDA focuses its work on areas shown to have a significant development impact. For example, work is underway to improve IDA's track record in assisting borrowing countries to formulate and implement poverty reduction strategies that adequately incorporate gender. As well, in recognition of the fact that weak governance, including corruption, can constrain development, IDA has incorporated governance considerations in its work.

Lending for social services has been a focal point of the World Bank's – and particularly IDA's – poverty reduction efforts in recent years. IDA places particular emphasis on lending targeted directly at the poor under the Program of Targeted Interventions (PTI). For example, a PTI project in Algeria provides affordable housing and land titles to about 50,000 households in low-income areas, including urban slums. The project will also offer basic infrastructure services, including roads, safe drinking water, sewage, drainage and electricity. Over the 1996-2000 period PTI lending has consistently accounted for more than 50 per cent of IDA's investment lending.

IDA's assistance in girls' education has been another strong feature of its poverty reduction efforts in the past decade. The share of IDA education lending going to girls' education rose from 39 per cent in 1996 to 48 per cent in 1999. And while 23 IDA education projects targeted girls at the start of IDA9, about half the 98 projects in IDA's education portfolio did so at the end of IDA11. In 1997 a Bank girls' education program identified 31 active borrowers as having significant gender disparities in education and targeted 15 of these because of exceptionally large gaps between boys' and girls' enrollment rates (all of them in Sub Saharan Africa, the Middle East and North Africa). Evaluations of projects closing in 1995-2000 indicate that where there are large gender disparities, the Bank has integrated gender concerns into virtually all education projects and has contributed to positive trends in enrollment.

Table 3

**IDA Lending for the Program of Targeted Interventions
Fiscal Years 1997–2000**

	1997	1998	1999	2000
IDA PTI lending (in US\$ millions)	1,874	3,267	3,033	1,828
As % of IDA investment lending	53	54	62	51
As % of all IDA lending	41	44	45	42
Number of IDA PTI projects	36	55	69	40

An important result of the IDA 12 replenishment process was the conclusion that these new resources would be directed to countries that have good policies. IDA 12 resources, therefore, focus on four key areas:

- **Investing in people** – IDA has placed a high priority on investments in basic social services, including primary education and health care, clean water and sanitation, nutrition, and social protection. This funding will address such needs as ensuring that children who are forced to work to help support their families do not have to sacrifice opportunities to learn. Social sector lending will remain around 40 per cent of investment lending during IDA 12.
- **Promoting broad-based growth** – Development experience shows clearly that sustainable, broad-based economic growth is essential for poverty reduction. IDA therefore supports policy changes and projects that encourage the role and growth of the private sector, including local small businesses, micro enterprises and small holding farms.
- **Supporting good governance** – Good governance is critical to sustainable, broad-based economic development and improvements in human well-being. As discussed above, IDA has strengthened its analytical framework to assess the quality of overall policy performance in recipient countries; the resultant standards will be applied in the allocation of IDA 12 resources.
- **Protecting the environment** – IDA will support strategies that promote environmentally sustainable development since the effects of poverty and environmental damage are often mutually reinforcing.

IDA also recognizes that a special effort is needed in Africa – a region that continues to present a particularly difficult development challenge. Weak economic and governance policies across Africa have contributed significantly to the continent's poor performance. IDA's performance-based lending criteria reinforce good policies. Recognizing the impact that better policies will have on development and poverty reduction, many African countries are now strengthening their policies and have begun to benefit from improved growth rates. This opens a window of opportunity to improve the lives of their poorest citizens. Yet investment levels in these countries are too low to sustain this growth.

IDA Success Stories

- Community Action Programmes (CAPs) in Sub Saharan Africa, supported by IDA financing, are designed to make resources available to local people for homegrown development programs. CAPs channel resources directly to poor people. In addition, CAPs help improve the local institutional and governance environment by empowering communities to design and implement their own initiatives. A credit supporting the first CAP, targeting rural infrastructure in Senegal, was approved in January 2000. CAP funds will be used to pilot initiatives that will improve the mobility of some 1.3 million people living in rural areas as well as to assist communities in preventing the spread of HIV/AIDS. In Bangladesh one of IDA's most successful pro-poor investments has been in rural electrification. The rural electrification project has expanded existing distribution networks to underserved areas and has rehabilitated distribution systems taken over from parastatals. The project's achievements have been outstanding in many areas: the number of consumer connections has far exceeded the original estimates; improved household lighting has increased opportunities to study and earn income; and the project has led to more efficient energy use in industry and agriculture. A socio-economic study showed that average household income in the program villages is about 50 per cent higher than that in non-electrified villages, and attributes 22 per cent of the difference to electrification. Not surprisingly, the poverty rate in electrified villages is lower as well.
- The Ghana Community Water and Sanitation Project assisted in the launch of a new community-based water and sanitation policy. Each community decided whether to participate in the program and selected a preferred technology and service level based on willingness to pay and capacity to sustain the service. Each community was required to pay part of the capital costs (5 per cent to 10 per cent in cash) and to assume full responsibility for operations and maintenance. An intensive community development program included hygiene and sanitation promotion and in-service management training. The private sector and NGOs provided all goods and services with government facilitation. From 1994 to 1999, the program financed projects in four regions covering 700 rural communities and 30 small towns. It also served as a platform for the government to lead extensive stakeholder consultations and co-ordinate external support.
- Gender analysis for the Ethiopia Education Sector Development Program revealed that girls in rural areas were not attending school because they had to fulfill household chores such as obtaining water and grinding grain. Based on this analysis, the program linked up with other ministries to create water sources and grinding mills near schools so that the girls could meet family obligations on their way to and from school.
- In Nepal the National Rural Water Supply and Sanitation Project provides for sub-projects to be designed and implemented by communities in a participatory manner. As project managers, communities are carrying out their own monitoring and evaluation. This has proved highly effective in many villages, where women have gained status by taking charge of choosing project performance indicators and monitoring personal hygiene and sanitation practices in the households and public areas of their communities. It also has enabled them to participate more actively in water and sanitation committees. The approach should reach 900 communities by the end of the project.
- The Arsenic Mitigation Water Supply Project in Bangladesh is helping to stop contamination that is estimated to be affecting at least 15 per cent of the population.
- In Benin forestry management plans have been designed and implemented for 268,000 hectares of forest and involving 320,000 people within or around the forests.
- With the help of an IDA-supported transport rehabilitation project, 984 kilometres of roads were repaired in Georgia, significantly reducing travel times. Broad-based road maintenance is reaching most of the country.

Sustaining and building on the efforts of African governments will require substantial support from the international community, including both the private and public sectors. To support African countries that are committed to poverty reduction, economic reform and sustainable, broad-based growth, IDA intends to increase Africa's share of IDA resources to up to 50 per cent of IDA 12 resources, as long as the performance of individual countries warrants it.

While the application of performance-based lending criteria caused a dip in the overall IDA lending to Africa at the outset of the IDA12 period, there has been some recent progress towards meeting this 50-per-cent goal. The Africa region continues to receive the largest level of IDA support in both absolute and relative terms. In FY 2000 IDA approached the 50-per-cent target for the region. This represented a substantial increase over the continent's FY 1999 32-per-cent share of IDA commitments. In FY 2000 Nigeria became an active IDA borrower and received financing for capacity building, primary education and water/sanitation projects.

Canada's Priorities at the World Bank

A) Developmental Priorities

Poverty Reduction: Despite considerable progress over the past two decades in improving living standards worldwide, over 3 billion people remain in poverty. Canada has long been a key player in international efforts to assist the poorest and strongly supports poverty reduction as the overarching objective of the World Bank. As such, Canada endorses the Comprehensive Development Framework, under which the Bank promotes broad-based poverty reduction strategies in developing countries, and the Poverty Reduction Strategy Papers, under which developing country governments develop and implement poverty reduction programs. The Bank has increasingly recognized that poverty reduction cannot be addressed in isolation. Private sector development, good governance, monitoring of non-productive expenditures (especially military), external debt and environmentally sustainable policies are just a few of the factors that need to be considered in designing strategies to help improve the living standards of the poor in member countries. In the case of small states, the Bank has to take into account additional factors of economic and physical vulnerability.

Canada strongly supports the Bank's efforts to increase the prominence of social sector issues in macroeconomic stabilization programs. Good macroeconomic policy is key to boosting growth, thereby reducing poverty. At the same time, adequate attention to social issues is key to the success of macroeconomic stabilization and sustainable development goals.

Canada's Voting Record

World Bank Executive Board decisions are usually taken on a consensus basis, without recourse to a formal vote. On occasion, however, individual Executive Directors have been unable to join the Board consensus for various reasons. In 2000 the Canadian Executive Director did not join the Board consensus on 24 occasions.

- Canada registered its abstention or opposition in the cases of 18 World Bank and IFC loans and investments in India and Pakistan as, in Canada's view, these operations were inconsistent with the internationally agreed sanctions applied against the two countries following their testing of nuclear weapons devices in May 1998.
- In April 2000 Canada abstained during the discussion of the World Bank's US\$87-million and US\$145-million Second Primary Health Care and Nutrition Loan and Tehran Sewerage Loan for Iran, given concerns that the Bank was starting lending operations before the Executive Board had had the opportunity to discuss the Bank's overall assistance strategy for the country.
- In May 2000 Canada abstained during the discussion of an IFC loan of up to US\$40 million in support of the Ghana Telecommunications Company Limited as the borrower was the Ghanaian state, rather than a private sector company. In May the Canadian Executive Director also abstained on management's recommendations regarding Bank staff compensation.
- In July 2000, together with countries representing a majority of World Bank shareholders, Canada opposed Bank management's response to the Bank's independent Inspection Panel's report on the China: Western Poverty Reduction Project (Qinghai component) since management's response did not include returning to the Executive Board for approval after additional environmental studies had been undertaken. As a result of this Board decision, the Chinese authorities withdrew their request for World Bank funding of the Qinghai regional component of the project.
- In December 2000 Canada abstained during the discussion of Rwanda's HIPC decision point due to concerns over Rwandan involvement in the conflict in the Democratic Republic of the Congo.

Gender Issues: Canada actively promotes gender issues as a priority for World Bank operations. World Bank lending in almost all sectors includes activities that specifically benefit women. In FY 2000 the Bank undertook to develop a Gender Sector Strategy, which will outline ways in which the Bank can better integrate gender into its work. It is expected that this strategy will be considered by Executive Directors later this year. In the meantime the Bank is working to integrate gender issues into Country Assistance Strategies. In general, the Bank-funded projects in agriculture, education, health and infrastructure take particular care to incorporate gender analyses and actions. In the Bank's Ghana Community Water and Sanitation Project, for example, local NGOs work with community organizations to ensure that women actively participate in decision making. Women account for 48 per cent of the membership of local water and sanitation committees and 38 per cent of executive committee members. CIDA is currently working closely with the World Bank to improve the Bank's capacity in gender equity. To expand exchange of knowledge with its development partners, the Bank has made a number of statistical indicators on gender available to the public through its Web site.

Private Sector Development: Canada has encouraged the increasingly co-ordinated approach to private sector development that has grown within the Bank Group over the past three years. It is now clear that the private sector plays an important role in addressing virtually all development challenges, from protecting the environment to assisting in privatization in transition economies.

The Bank uses a wide range of instruments for this task – adjustment lending, technical assistance, investment lending, guarantees and adaptable program lending.

Altogether, the World Bank provided some US\$4.2 billion in financing to support private sector development. Of this amount, some US\$2.9 billion supported private sector, projects in the transport, water and sanitation, and urban development sectors, where private sector investment is still very modest. The remainder focused on energy, mining and telecommunications. In FY 2000 the Bank had underway 306 operations designed to stimulate private investment in infrastructure, and roughly 60 per cent of the Bank's total operations in infrastructure included private sector participation as a key objective.

In a shift of emphasis that reflects the growing importance of private capital and investment to developing countries, the World Bank Group has restructured to better align and expand its work related to the private sector. The reorganization, which took effect on January 1, 2000, strengthened the link between the World Bank Group's public sector work and its private sector development work done through the IFC by integrating the staff and work programs of the two institutions. The reorganization includes both a new structure within the Bank Group, and a new approach to creating a favourable

business environment and helping finance small and medium-sized enterprises. A new combined unit co-ordinates Bank Group activities to disseminate the knowledge that will encourage creation of local intermediaries to help capitalize local financial institutions, and provide training for financing small and medium-sized enterprises. The new unit, in combination with increased IFC investments in local intermediaries that finance small businesses, reflects a significantly higher priority for this sector within the Bank Group.

The Bank also uses **guarantees** to expand developing countries' access to international and domestic capital markets. Complementing products offered by the IFC and MIGA, the Bank provides partial risk and partial credit guarantees for private investment in priority projects. In FY 2000 the Bank provided a partial risk guarantee of US\$61 million to support the creation of a private power plant in Haripur, Bangladesh.

Expanding the benefits of information and communications technology (ICT) to developing countries is prominent on the Group of Eight policy agenda. Canada supports the efforts by international organizations, including the World Bank, to promote the ICT agenda in the developing world and to reduce the digital divide. The Bank's global reach and its ongoing program of country and sector work have made the institution one of the leading players in the international effort to bridge the digital divide between the developed and developing countries. In January 2000 the telecommunications groups of the IFC and World Bank were integrated into a new World Bank Global Information and Communication Technology (GICT) Department. The GICT Department plays an important role in promoting private participation in developing telecommunications services in developing countries. It provides governments and private companies with capital and expertise needed to liberalize the telecommunications sector, to attract additional private investment and to leverage information and communications technologies for export-based development.

In FY 2000 the Bank launched the Cities Alliance in partnership with the United Nations Centre for Human Settlements: Habitat, bilateral donors (including CIDA), NGOs and the business community, as an initiative to improve living conditions for poor people living in urban slums. The Cities Alliance aims to promote pro-poor city development strategies and to increase the scale of slum upgrading efforts worldwide. CIDA has provided approximately \$800,000 in grant financing in support of this initiative.

Another example of the private sector's role in development is the growing impact of **micro-credit operations** (relatively small loans made to the poor by grassroots organizations such as the Grameen Bank in Bangladesh). With a small investment, these organizations have been successful in improving the living conditions of the poor, particularly women, in developing countries. Evidence from these operations is compelling; it shows that the poor can be very good entrepreneurs as well as very good credit risks.

The Consultative Group to Assist the Poorest (CGAP), which includes the World Bank, Canada and 26 other multilateral and bilateral donors, was established in 1995 to support the development and expansion of sustainable institutions that provide micro-financing services to the poor.

During the initial phase (1995-98), CGAP provided US\$26 million in grants to support micro-finance operations, as well as technical assistance for financial management training and the development of "best practices policies" for micro-finance providers. In June 1998 CGAP was renewed for an additional five years. Building on its earlier achievements, during this second phase, CGAP has a more explicit focus on institution building and poverty reduction. CGAP members and donors are responsible for the maintenance of a core fund to support micro-finance programs in the developing world. The Canadian government approved a \$1.5-million, three-year agreement between CIDA and CGAP, which started in 1999. As part of its involvement with CGAP and in partnership with the Aga Khan Foundation, CIDA is undertaking research to better understand the relationship between micro-finance and the promotion of social capital among the poor.

Micro-Credit: The Consultative Group to Assist the Poorest

In FY 2000 the Consultative Group to Assist the Poorest (CGAP) made 22 new investments totalling US\$13 million in direct support to micro-finance institutions and a further four investments totalling US\$7.6 million in wholesale funding to retail micro-finance institutions. CGAP also provided US\$7.5 million in funding for training and capacity building and a further US\$115,000 for funding technical advice

For CGAP's second phase, donors have adopted the following strategies:

- to support micro-finance institutional development through the creation of tools and the delivery of capacity-building activities;
- to support changes in the practices of CGAP members, especially as they relate to the management of micro-finance portfolios;
- to increase understanding of the impact of micro-financing on poverty reduction;
- to improve the legal and regulatory framework for micro-finance; and
- to facilitate the commercialization of the micro-finance sector.

Through this work, CGAP seeks to strengthen the ability of micro-finance organizations with a proven track record and to provide assistance to the poor. The World Bank contributed US\$30 million to the first phase of the facility and has provided a further US\$7 million for the first year of the second phase until a multi-year commitment is put into place. CGAP bilateral donors have also agreed to provide US\$4 million in additional contributions in 1999. CIDA donated US\$330,000 to CGAP in FY 2000.

Good Governance and Anti-Corruption: Canada is an advocate of strong Bank support for improved public and corporate sector governance. Over the last decade governance has been mainstreamed into the Bank's adjustment and investment lending. In addition to encouraging more effective management of borrowing members' public expenditures and more participatory and open approaches in decision making, the Bank incorporates anti-corruption measures into its own procedures. In FY 2000 the Bank adopted an Anti-Corruption Action Plan and reviewed its progress since 1997 in helping developing countries to combat corrupt practices. The Bank has helped put in place more than 600 anti-corruption programs in nearly 100 borrowing countries and has mainstreamed anti-corruption issues into its Country Assistance Strategies. The Bank has amended its procurement guidelines to strengthen the procedures for disqualifying bidders, temporarily or permanently, from future Bank-financed projects if it finds evidence of fraud or corruption. Over the past three years the Bank has disbarred 54 companies and individuals from receiving Bank contracts because of their involvement in corruption or the misuse of Bank funds.

Canada has been particularly outspoken and concerned about unproductive expenditures, particularly excessive military expenditures. Canada has spoken strongly at the Bank to highlight the need to be tough on those countries that are receiving international assistance and in which defence crowds out social sector spending. At a time of scarce donor resources the Bank's clients can ill afford to waste resources on unproductive spending. Recognizing this problem, the Bank is reviewing its current guidelines by surveying the policies and program approaches of the bilateral donors and other multilateral donors. The Bank is requesting better information from borrowers on military-related aggregate expenditures to aid in its public expenditure reviews. Under the performance-based lending framework in place for IDA operations, IDA allocations are, among other things, tied to efforts by developing country governments to reduce non-productive (including military) expenditures.

In its efforts to promote better governance practices, the World Bank Institute has established close working relations with the Parliamentary Centre in Canada and with international organizations such as Transparency International.

Environmentally Sustainable Development: The Canadian government, alongside Canadian NGOs, has long been a vocal advocate of the need for the Bank to better integrate environmental considerations into its operations and has been a keen supporter of the Bank's recent efforts. The establishment of the Environmental Sustainable Development Vice Presidency in 1993 has been instrumental in supporting this objective. Environmental lending as a share of overall Bank operations increased to 10 per cent in FY 2000, compared to 7 per cent in FY 1999. In FY 2000 the Bank approved US\$514 million in loans in support of 13 stand-alone environmental projects. At the end of FY 2000 there were 97 active stand-alone environmental projects worth US\$5.16 billion. In FY 2000 the Bank approved roughly an additional US\$400 million in environmental components of over 30 loans

to other sectors. This brings the value of the Bank's "broad" environmental portfolio to some US\$15 billion. Over and above the Bank's portfolio of environmental projects, the Bank requires that every project it supports be environmentally sustainable. Environmental assessments, which are discussed with the public, are designed to test the environmental sustainability of each Bank project. The Bank also examines potential environmental impacts when developing broad sector strategies. It is increasing its focus on the institutional and regulatory frameworks that govern natural resources in order to promote long-term environmental stewardship. In Brazil, for example, the Bank's Second Environmental Project aims to improve the effectiveness of national environmental legislation and to strengthen environmental management at the state and municipal levels.

Of particular note is the increasing work undertaken by the Bank in co-operation with other shareholders in the area of **climate change**. It is now recognized that collective global action is required to find solutions to this problem, and the Bank has stepped up its efforts to provide assistance to its borrowing member countries to help reduce "greenhouse gases." As an implementing agency of the Montreal Protocol's Multilateral Fund, the Bank supports projects in 20 countries and has committed US\$360 million in financing since 1991 for some 480 projects to assist enterprises in developing countries convert to ozone-friendly technologies. The Bank is assisting the three largest producers of CFCs (China, India and Russia) to phase out CFC production and to meet their obligations under the Montreal Protocol.

The Bank has also been active in developing a commercial framework for carbon emissions trading under the Conference of the Parties on Climate Change process. The Bank launched the Prototype Carbon Fund (PCF) in January 2000. The PCF funds projects that produce high-quality greenhouse gas emission reductions that could be registered with the United Nations Framework Convention on Climate Change for the purposes of the Kyoto Protocol. PCF resources are provided by both the public and private sectors (including a contribution from CIDA).

In 1999 the Bank launched a major review of its environmental strategy. The Bank's review focuses in particular on the effect that the environment has on the health, livelihoods and vulnerability of poor people. The Bank is in the process of consulting with civil society groups, governments and other stakeholders on its draft revised environmental strategy. The draft report has been posted on the Bank's Web site at www.worldbank.org. It is anticipated that, once the consultations are completed in early 2001, the new strategy will be formally considered for approval by Bank Executive Directors.

Together with the United Nations Development Programme and United Nations Environment Programme, the World Bank is an implementing agency of the Global Environment Facility (GEF). Launched following the

1992 United Nations Conference on Environment and Development, the GEF functions as a facilitator and funding mechanism for integrating global environmental concerns into the development process. To the end of FY 2000, Bank management has approved a total of 180 GEF-financed projects in roughly 70 developing countries worth a total of US\$1.4 billion. This has been complemented by co-financing of roughly US\$4 billion from the World Bank and others – every dollar of Bank-GEF assistance is matched by roughly a dollar of IBRD/IDA financing and two dollars in funding from other donors. In FY 2000 the Bank's GEF program reached an all-time high with US\$280 million in GEF grants approved by the GEF Council. This represents a 12-per-cent increase over FY 1999.

World Bank Prototype Carbon Fund

In January 2000 the World Bank launched the Prototype Carbon Fund (PCF), established with contributions from governments and private companies. The PCF is the world's first commercial carbon emissions trading instrument. In its 2000 budget the Government of Canada made available to the PCF up to US\$10 million. The PCF will invest in cleaner technologies in developing countries and transition economies, thus reducing their greenhouse gas emissions. These emissions reductions will then be transferred to the Fund's contributors in the form of emissions reduction certificates. All parties will gain:

- poor countries will gain access to climate-friendly technologies and earn revenue from selling emissions reductions;
- contributors will receive low-cost emissions reductions to help them meet their commitments arising from the Kyoto Protocol; and
- the environment will benefit because the PCF provides poor countries with funds to switch to cleaner and more efficient technologies.

On April 10, 2000, the PCF achieved its first closing and formally began its investment operations. Demand for PCF shares prompted a second closing later in the year. Starting in April 2000 the Bank plans to invest the Fund's capital in projects that promote renewable energy technologies – such as wind, small-hydro and biomass energy technology – that would not be profitable without revenue from emissions reductions sold to the PCF. Some 20 developing countries have already shown interest in undertaking PCF projects. The PCF has already negotiated an emissions reduction purchase agreement with the government of Latvia.

B) Trade and Development

Canada recognizes that the capacity of developing countries to participate effectively in the global trading system is an important component of a comprehensive approach to growth and poverty reduction. Canada has stressed the need to incorporate trade sector capacity building in Bank Country Assistance Strategies and nationally developed Poverty Reduction Strategy Papers.

In anticipation of a next round of World Trade Organization negotiations, the Bank intensified its work in helping the least developed countries to effectively participate in trade negotiations. Several capacity-building projects were launched during the year to help these countries implement their commitments from earlier trade rounds and to build domestic expertise to participate in future negotiations.

The World Trade Organization 2000 Capacity-Building Project, a three-year research and capacity-building initiative, was launched in January 1999 to help developing countries participate more effectively in the next round of World Trade Organization negotiations. Another capacity-building project was introduced during the year to specifically assist developing countries in the negotiations on agriculture. Both these projects are carried out in close collaboration with the World Trade Organization and various other institutions, and they receive support from a variety of donors.

The Bank also intensified its efforts within the Integrated Framework (IF), where six core organizations are working together with the least developed countries to co-ordinate their trade assistance programs. The main objective of the IF is to ensure that trade-related technical assistance is demand-driven and meets the needs identified by the least developed countries. As part of the IF, about 40 of these countries are currently carrying out comprehensive needs assessments. By working closely with all involved parties, the IF seeks to increase the efficiency and effectiveness of the delivery of trade-related technical assistance.

An independent evaluation of the IF was commissioned by the IF's inter-agency working group, which includes the World Trade Organization, the IMF, the World Bank, the United Nations Development Programme, the United Nations Conference on Trade and Development, and the International Trade Centre. The evaluation recommended that the IF should be incorporated into the process for the formulation of national strategies for development.

During FY 1999 the Bank also convened a task force to explore possibilities to minimize the risks faced by commodity-exporting developing countries due to price fluctuations in the world markets.

C) Transparency and Accountability

Canada recognizes that transparency and accountability are fundamental to ensuring the longer-term sustainability of the Bank Group's operations. Canada has been a major proponent of increased openness at the Bank and has pressed for a greater range of Bank materials to be released to the public. The Bank has responded to concerns from shareholders by making public a growing number of documents on operations, and the Bank is now consulting with NGOs and other groups in drafting a revised information disclosure policy. Transparency also requires better consultation with beneficiaries. Canada and other donors have pushed the Bank and borrowing countries to find ways to improve consultations with local people – civil society and NGOs – in beneficiary countries, not only in the design and implementation of projects but also in the preparation of key policy documents, such as Country Assistance Strategies. To ensure that the Bank is accountable to its clients, Canada has been one of the major supporters of the work of the Inspection Panel. Canadian Jim MacNeill is the current Chair of the Panel. The World Bank was the first multilateral organization to establish an independent panel to consider outside complaints. Any group that may be affected by a Bank-supported project has the right to request that the Panel investigate whether the Bank has abided by its policies and procedures. Since its inception in 1994 the Panel has received 21 formal requests for inspections. It received 5 requests for inspections during FY 2000.

D) Improving World Bank Effectiveness

In November 1998 the Bank's Economics Department released a landmark study on the effectiveness of international development assistance. It concluded that foreign aid has been highly successful in reducing poverty in countries that practise sound economic management and possess robust government institutions.⁷ Conversely, the study confirmed that foreign assistance delivered to countries with poor governance and economic policy records is not particularly effective; significant foreign assistance has not led to any significant improvement in poverty reduction in these countries.

⁷ The World Bank, *Assessing Aid: What Works, What Doesn't, and Why* (Policy Research Report Series, 1998). For the full report, see the World Bank Web site at <http://www.worldbank.org/research/aid/aidtoc.htm>.

How to Access Information at the World Bank

The World Bank's Public Information Centre, which became operational in early 1994, provides a wide range of Bank documents, including:

- project information documents;
- project appraisal documents (after approval by the Board of Executive Directors);
- country economic and sector work documents and sectoral policy papers;
- the annual report and the *World Development Report*;
- the *Monthly Operational Summary* and *International Business Opportunities*;
- environmental data sheets, assessments, analyses and action plans;
- *World Debt Tables*; and
- operation evaluation department précis.

The Bank's InfoShop is located at
1776 G Street N.W., Washington, DC 20433, U.S.A.
Phone: (202) 458-5454
Fax: (202) 522-1500
E-mail address: pic@worldbank.org

Additional up-to-date information is also available on the Internet at <http://www.worldbank.org/html/pic/PIC.html>.

The Bank is increasingly moving towards rewarding good performers. IDA allocations are now based on a performance criterion. The impact is most evident in Bank lending to Africa. Also, in India, for the first time, the Bank is exercising greater selectivity by concentrating support in reforming states. This, in turn, has resulted in increased reform efforts in several states. In order to monitor country performances in a meaningful manner, the Bank is focusing on incorporating poverty-related outcome indicators to measure real results. The outcomes are poverty-focused and include such indicators as child malnutrition and child and maternal mortality.

Ensuring the efficiency and effectiveness of the Bank's operations has long been a key objective of Canada. But efficiency and effectiveness entail more than just reducing costs and saving money. They require selectivity in setting clear priorities and delivering services more efficiently. The Bank needs to operate in those areas where its assistance is needed and where it has a clear comparative advantage. It needs to reconsider its role in areas where the private sector or other multilateral development banks may be better placed to provide assistance.

The Bank has come a long way towards meeting the goals of the Strategic Compact to provide higher quality service more efficiently. Canada has been an active supporter of the Bank's moves to further decentralization of operations to local offices. A significant shift of operational staff to the field has been undertaken to move the Bank closer to clients and make Bank assistance more effective. Currently 25 country directors operate from the field, compared with only 3 two years ago. Notable achievements have also been made in encouraging local-level ownership in projects and strategy formulation.

The Bank continues to strengthen its efforts to improve development effectiveness through a renewed emphasis on the quality of its project portfolio. More vigilance is now exercised at the project preparation and supervision stages. The focus on results has been intensified. As a result, there is a significant improvement in the quality of the Bank project portfolio: in FY 2000 about 75 per cent of Bank projects have had satisfactory outcomes, up from 65 per cent to 70 per cent over the 1990-96 period. However, as the Bank's independent Operations Evaluations Unit judged in its FY 2000 annual report, more than one in three Bank projects show unsatisfactory borrower implementation. This suggests that more effort will be needed to improve the capacity of borrowers to successfully implement projects.

E) Involving Civil Society and NGOs in Decision Making

President Wolfensohn has been a major catalyst behind the Bank's outreach program with civil society and NGOs; particular emphasis has been placed on the importance of expanding partnerships with outside groups. As a result, the level of NGO involvement in Bank-supported operations has continued to grow.

More than 70 per cent of Bank projects across all major sectors included some form of NGO participation in FY 2000. Moreover, NGOs actively participated in Bank policy discussions: 22 of the 25 Country Assistance Strategies prepared in FY 1999 included consultations with NGOs and civil society; NGOs provided valuable input to the policy deliberations at the Bank and the IMF on how to link HIPC debt relief to poverty reduction goals. Two Canadian NGOs, the North-South Institute and the Halifax Initiative, were involved in the HIPC consultation process. NGO participation continued to progress in the face of the emerging market financial crisis. NGOs and representatives from civil society in the affected countries were brought together with Bank officials in Manila in 1999 to discuss and learn about the impact that the economic crisis has on the poor. Over the past two years the Bank has increasingly become the focus of public attention as its meetings of Governors have become one of the focuses for demonstrations by groups protesting the impact of globalization on the world's poor.

The NGO-World Bank Committee, a formal mechanism for policy dialogue established in 1982, has been replaced by an annual World Bank-Civil Society Forum. This forum is organized by the Joint Facilitation Committee of the Bank and NGO representatives. In addition to this annual event, there will also be regional and country dialogues. An annual report is published on the Bank's relations with civil society and the Bank maintains a Web site (<http://wbln0018.worldbank.org/essd/essd.nsf/NGOs/home>).

Within Canada NGOs have participated in a regular series of government meetings and conferences on such issues as multilateral debt, the environment, IDA and Africa. This consultation has proven useful for advancing Canadian interests at the Bank. The Canadian government has benefited greatly from the expertise and advice offered by Canadian NGOs on a broad range of development issues. Through this collaborative process with government, the views of Canadian NGOs have helped shape Canada's position in World Bank project and policy discussions.

Managing Canada's Interests at the World Bank

Finance Minister Paul Martin, as Canada's Governor at the World Bank, is responsible for the management of Canada's interests at the Bank. Minister Martin exercises his influence through exchanges of views at the Development Committee and annual meetings, and through discussions with the President of the World Bank. For example, in 2000 two of the issues that Governors addressed were how to ensure that HIPC's progress to debt relief and how to help countries afflicted by the HIV/AIDS pandemic.

The Department of Finance consults closely with the Department of Foreign Affairs and International Trade and CIDA in formulating Canadian policies related to World Bank issues. Len Good, the President of CIDA, is Canada's Alternate Governor for the World Bank. The day-to-day handling of Canada's diverse interests at the Bank is delegated by the Governor to the Executive Director, currently Terrie O'Leary, who was elected in October 1998. She represents Canada and 12 other countries (Ireland and 11 Caribbean countries) at the Executive Board. Of 24 Executive Directors on the Board, 12 are from developing and transition countries and 12 from developed countries.

The Bank's Executive Board formally approves all loans, credits, projects and World Bank policies, discusses Country Assistance Strategies and provides strategic advice to Bank management as appropriate.

One of the important functions played by the Executive Director in 2000 was her oversight of the Bank's administration and spending through her membership on the Board of Directors' Budget Committee. In November 2000, following from the regular cycle of rotation of Executive Board committee membership, she joined the Board's Personnel Committee.

Canada's Office at the World Bank

In 2000 the Canadian Executive Director's office continued to support the activities of Canadian businesses seeking opportunities with the World Bank. The Executive Director's office helped expose roughly 1,000 Canadian businesses to such opportunities through seminars and workshops held across the country and by organizing direct contacts in Washington.

Organization of the Office

The Executive Director is supported in her everyday duties by two Canadian advisors and two assistants. These officers are in constant communication with the Canadian government – not only with the Department of Finance, but also with CIDA and the Department of Foreign Affairs and International Trade. The Department of Finance co-ordinates Canada's policy advice and channels it to the Executive Director, and through her to World Bank management.

Structure of the Executive Director's Office

Executive Director:	Terrie O'Leary
Canadian Advisor	Kathryn Hollifield
Canadian Advisor:	François Pagé
Canadian Assistant:	Ian Wright
Canadian Assistant:	Gilles René
Phone/fax:	(202) 458-0082/(202) 477-4155
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Beyond the formal work of the Executive Board outlined above, the office provides a valuable bridge between the Bank and Canadian constituents – individuals, NGOs, federal and provincial agencies, associations, the academic community and parliamentarians, among others.

One of the key roles of the office is to provide assistance to Canadians and Canadian businesses. Canada's procurement advisors, along with the Canadian Embassy in Washington, assist in providing advice and information on how to do business with the Bank (details are provided below). Another point of contact for Canadians is the Bank's Business and the Private Sector Web page at <http://www.worldbank.org/business/>.

Canadian Procurement at the World Bank

Canadian companies and consultants often provide supplies, equipment and services to projects financed through the World Bank. Canadian expertise in the power, environmental, engineering, human resources, health, education, telecommunications, financial and transportation sectors has led to procurement opportunities for Canadian firms on developing country projects around the globe.

In FY 2000 many Canadian firms continued to benefit from Canada's World Bank membership by accessing procurement opportunities under World Bank-financed loans. In FY 2000 disbursements to Canadian companies for the supply of goods and services under Bank-financed project loans reached US\$94 million. In addition, the World Bank estimates that US\$54 million was disbursed to Canadian companies for procurement under adjustment loans, bringing total FY 2000 Bank disbursements to Canadian businesses to US\$148 million.

It is noteworthy that the US\$38 million disbursed in FY 2000 to Canadian consulting firms and individual consultants represented 6 per cent of total Bank disbursements for consulting services in Bank-financed projects. Companies such as Nortel Networks Corporation, Canada China Power Inc. and General Electric Canada Inc. were very active in the energy sector in China, while SNC-Lavalin Group Inc., Stone and Webster Canada Ltd. and Acres International Limited conducted work for the Bank in the same sector in El Salvador, Indonesia and Uganda respectively. Tecsalt International Ltd. continued to be very active in Algeria, Gabon and Madagascar, while at the same time pursuing new markets in Central and Eastern Europe and Latin America.

Trust Fund Activities

A significant source of funds to facilitate increased Canadian participation in World Bank projects are the consultant trust funds supported by CIDA and administered by the World Bank. These are used to introduce new Canadian consultants to the Bank, as well as to encourage the Bank to undertake activities in areas Canada considers a priority. In June 1995 CIDA concluded a new agreement with the World Bank, the Co-Financing, Technical Assistance and Consultant Trust Fund Framework Agreement, to govern all its trust fund arrangements with the Bank. Within the World Bank Group, CIDA currently finances trust funds at the World Bank, the IMF, the WBI as well as the Global Environment Facility. These funds lead directly to contracts for Canadians in the feasibility, assessment and design of development projects.

In addition to its \$20-million trust fund at the Bank for persistent organic pollutants, \$10-million contribution to the Prototype Carbon Fund, \$500,000 contribution to the Public-Private Infrastructure Advisory Facility, and approximately \$800,000 contribution to the Cities Alliance (mentioned above), CIDA has also established a \$1-million trust fund with the WBI as part of the five-year funding agreement signed in 1999. The trust fund enables the WBI to engage Canadian expertise in the preparation and delivery of its training programs around the world in countries eligible for Canadian Official Development Assistance. Through annual CIDA-WBI consultations, allocations are made to a number of WBI programs – usually five or six main programs – based on their fit with Canadian priorities and engagement of Canadian partners. For further information on these and other Canadian trust funds at the World Bank, contact Stéphane Charbonneau, Commercial Counsellor at the Canadian Embassy in Washington (phone [202] 682-7719; fax [202] 682-7789) and François Pagé, Advisor at the Executive Director's office (phone [202] 458-0082; fax [202] 477-4155).

Canadian Success Stories

Canadian companies continued to be beneficiaries of World Bank Group financing and capital mobilization efforts. A number of Canadian companies from key sectors have begun to work with the World Bank Group. For example, in FY 2000:

The firm Gowling Lafleur Henderson LLP was awarded through international competition a US\$2.3-million Bank-funded contract with the Russian Foundation for Legal Reform to strengthen Alternative Dispute Resolution (ADR) systems in Russia. The 14-month technical assistance contract, a component of a multi-year Legal Reform Project, included institutional strengthening; design and delivery of a comprehensive train-the-trainers program focused on arbitration and mediation skills; and ADR seminars and conferences throughout the country. The contract was successfully completed in late 2000 and the firm has been short-listed for other components of the project.

In July 2000 SaskTel International hosted a group of telecommunications specialists from the World Bank, IFC and EBRD in Saskatchewan to conduct a rural telecom study tour. The group spent a week in Saskatchewan participating in site visits, presentations and a round-table discussion to explore ways to provide rural telecommunications in developing countries. SaskTel's involvement with the Bank in 2000 included the submission of a bid for the privatization of the Tanzania Telecommunications Company Limited. SaskTel was encouraged to become a strategic partner with the IFC in this initiative. It was also the successful bidder for a rural telecommunications licence in Nepal, which would see the World Bank provide a one-time subsidy for capital expenditures to build the network.

Econoler International is a company specializing in the start-up and operation of energy service companies as well as in the implementation of energy efficiency projects. On November 22, 2000, it was awarded the Climate Technology Leadership Award by the International Energy Agency and the Organisation for Economic Co-operation and Development as part of the World Conference on Climate Change. This award-winning enterprise with Hydro-Québec International won two contracts in a project financed by the World Bank (valued at US\$2.6 million) for the Department of Industry in Vietnam. This project is in the context of energy demand management.

Econoler International received a US\$800,000 loan from the Small and Medium-Size Enterprise Program of the IFC to create a fund to encourage investments in Energy Service Companies (ESCOs) in developing countries. This year US\$260,000 of that fund was used to create the first ESCO in Tunisia.

International Finance Corporation

The IFC is playing an increasingly important role in the World Bank Group's private sector development activities. As a fast-growing entity within the Bank Group, it has also attracted the attention of Canadian companies and financial institutions that are interested in making direct investments in emerging markets. Given its private sector mandate and concerns for investor and client commercial confidentiality, the IFC does not report detailed procurement figures, as do the IBRD and IDA.

One of the IFC's essential functions is to mobilize financing and expert advice in favour of private sector projects in emerging markets. The Corporation has been an excellent resource for Canadian financial institutions, as well as for Canadian firms whose technical expertise is particularly suitable for these markets. One of the most significant developments on the IFC front in the mid-1990s was the return of Canadian financial institutions (typically commercial banks) to the IFC loan syndication program. This important program helps to mobilize private financing for IFC projects and provides financial institutions with the opportunity to invest in emerging markets. By investing alongside the IFC, financial institutions participating in the syndication program gain access to potential new customers, attain a high-yielding asset and, with the presence of the IFC as an investor in these projects, are provided a degree of political risk coverage.

A challenge ahead for the IFC is to ensure that in the face of massive demand, it does not ignore the poorest countries, such as those in Sub Saharan Africa. In today's global environment, the IFC's role in the poorest countries is more important than ever. The IFC's renewed focus on Sub Saharan Africa was evident in FY 2000. Total approved financing nearly quadrupled to US\$1.25 billion from US\$362 million due to a few very large projects, as well as a number of smaller projects. Commitments were signed for 341 loans, up from 292 in FY 1999. Disbursed financing rose to US\$240 million from US\$230 million in FY 1999, and is expected to rise as financing approved in 2000 reaches the disbursement stage in the coming years. The IFC's projects in Africa tend to focus on infrastructure: projects that provide reliable electricity, clean water and modern telecommunications. The IFC also supports projects that strengthen financial markets, increase employment and assist entrepreneurs in building their businesses.

Multilateral Investment Guarantee Agency

MIGA was created in 1988 to encourage foreign investment by providing viable investment insurance against non-commercial risks in developing countries, thereby improving or creating investment opportunities in those countries. It offers insurance against expropriation, transfer restrictions, breach of contract, and war and civil disturbance, and so facilitates foreign direct investment in developing countries. In FY 2000 MIGA offered guarantees to 53 projects in 26 developing countries, totalling US\$1.6 billion in coverage; these guarantees are estimated to have facilitated US\$5.45 billion in foreign direct investment. Twelve projects worth a total of US\$461 million were approved in IDA countries, including six in Africa worth a total of US\$300 million.

MIGA also provides technical assistance services to developing countries. In FY 2000 it offered 53 technical assistance or advisory programs that benefited 40 countries. MIGA offers capacity building and investment facilitation to developing countries. A new Needs Assessment Framework, complemented by a self-assessment methodology, guides MIGA's technical assistance and business-planning services to developing-country investment promotion agencies. Both these diagnostic tools were developed in-house. Other projects in FY 2000 included regionally focused capacity building.

Finally, MIGA offers Internet resources for firms engaged in foreign direct investment. A portal called Investment Promotion Network includes a directory of investment promotion agencies in emerging markets and an online guide to government and multilateral agencies that provide financial and risk management advice and insurance. The portal can be found at <http://www.IPAnet.net> and no longer requires registration. MIGA also offers a Web site called PrivatizationLink (<http://www.privatizationlink.com>), an online clearing house for privatization information and opportunities in the developing world. This Web site was a finalist in the public sector category of the Business Web Site of the Year competition, which is sponsored by the Financial Times, UUUNet, and PricewaterhouseCoopers.

Learning About Opportunities

Canadian firms, organizations and institutions that are interested in pursuing markets created by World Bank-financed projects are urged to attend monthly business briefings held on the first Thursday of each month at the Bank's headquarters in Washington.

Both the Canadian Embassy in Washington, through the Office for Liaison With International Financial Institutions, at (202) 682-7719, and the Canadian Executive Director's office at the World Bank, at (202) 458-0082, work to assist Canadian firms and consultants seeking to participate in World Bank-financed projects. The range of opportunities is wide – a power project in China, an environmental assessment in Peru and a legal/judicial reform project in Russia are examples. These two offices also encourage Canadian companies to contact them if they are interested in competing for procurement contracts.

Canada's Financial Participation

International Bank for Reconstruction and Development

Canada's share of IBRD capital is approximately 3 per cent. A relatively small proportion of this capital contribution is required to be "paid-in" – about 6 per cent overall, but just 3 per cent in the last capital contribution. The remainder is "callable" in the unlikely event that the IBRD needs it from member countries. Periodically, the IBRD replenishes its capital through general capital increases (GCIs). The IBRD's latest such capital increase (GCI III) in 1988 was for US\$76.5 billion. Canada was allocated 19,655 new

shares valued at US\$2.37 billion. The paid-in portion of these shares is US\$71.1 million. These shares were subscribed over a five-year period ending in 1993. As of June 30, 1999, Canada's cumulative subscriptions to the IBRD's capital stock totalled US\$5.403 billion (44,795 shares), of which US\$334.5 million has been paid-in.

International Development Association

In November 1998 donors agreed to a Twelfth Replenishment of IDA in the amount of US\$20.5 billion. This will finance IDA's lending program over the three-year period to June 30, 2002.

Canada maintained the same share as in IDA 11 of 3.75 per cent of donor contributions at a total cost of C\$607 million. To meet these obligations, Canada will issue three demand notes in 1999, 2000 and 2001. Each of these notes is then encashed over a six-year period. At the end of FY 2000 Canada's cumulative contributions to IDA (subscriptions and contributions) were the equivalent of US\$4.635 billion.

International Finance Corporation

The IFC was created in 1956 as the World Bank Group's private sector financing arm. Canada maintains a 3.4-per-cent share of IFC capital. To date Canada has paid-in US\$81.3 million to the IFC's capital stock. Given the risks associated with its financial operations, all of the IFC's authorized capital is paid-in.

Multilateral Investment Guarantee Agency

MIGA encourages direct foreign investment in developing countries by protecting investors from certain non-commercial risks. MIGA operates on a commercial basis.

On March 31, 1998, MIGA's Board of Directors agreed on a general capital increase of US\$850 million, divided into 78,559 shares of capital stock. Of this amount, 17.65 per cent will be paid-in and 82.35 per cent will be callable. The subscription period, over which the paid-in share will be provided, will be three years. At the end of FY 2000, 34 countries had subscribed a total of US\$171.5 million, of which \$30.2 million was in cash. The remainder was in callable capital.

As of June 30, 2000, Canada held 2,965 shares, with a paid-in portion of US\$6.4 million and a callable portion of nearly US\$256 million. Canada's paid-in contribution to MIGA is non-budgetary; its share in MIGA is 2.17 per cent.

On February 12, 1999, MIGA announced a landmark increase from US\$50 million to US\$110 million in the amount of political risk coverage it may issue for foreign direct investments in a project and an increase from US\$250 million to US\$350 million in its country limit. This development will allow investors access to higher levels of risk insurance in MIGA's 127 countries of operations.

Future Challenges

The major challenge for the future will therefore be for the Bank to find more creative ways of meeting the increasingly diverse needs of its clients, only some of which benefit from greater private capital.

The Bank will continue to have a role in supporting international efforts to prevent financial crises, to provide financial support to countries in financial crisis, and especially to help governments protect the poorest from the effects of crisis. Indeed, it is playing a critical role, in co-operation with the IMF, in strengthening financial sectors. Improving corporate governance and enhancing transparency and accountability of public sector activities are particularly important in putting together adequate institutional structures that may better withstand future crises. The Bank's central role, however, remains the promotion of development programs that reduce poverty across and within countries. As the Bank moves increasingly to support nationally owned development strategies, its key challenge will be to work with developing country governments and civil society to ensure that there is sufficient capacity on the ground to develop and implement these strategies. The Bank will also have to work increasingly with other partners, both multilateral and bilateral, to improve the quality and effectiveness of development assistance within individual countries. At the same time, the Bank will need to look at more innovative ways to address the problems of the poorest countries, particularly those in Sub Saharan Africa. The Comprehensive Development Framework and the ensuing Poverty Reduction Strategy Papers should help guide the Bank by providing improved tools for assessing development needs of the developing countries. The Bank's efforts to remain flexible in its approach to development and encourage country ownership of Bank-supported programs are steps in the right direction.

Without careful attention to the unique needs of individual countries, the Bank will be unable to meet its objectives of improving the quality of its operations and strengthening its development impact. The Bank will also have to strengthen its development co-operation partnerships with bilateral donors and international organizations, and especially with United Nations agencies, as it becomes increasingly involved in the global public goods agenda.

Thus, establishing priorities and being selective remain key. In this context, the Bank has moved to multi-year operational planning and has tied this process more closely to its internal budgeting cycle.

Reform of the World Bank and other multilateral development banks is a priority for the G-7. Canada and its G-7 partners will continue to stress the need for the Bank to be much more selective and transparent in its operations.

JOINT ISSUES

Overview

The IMF and the World Bank are important institutions for Canada, each playing a unique role in the international economic and financial system. Nevertheless, there are key areas where the mandates of the two Bretton Woods institutions overlap, or where there is a requirement for close co-operation and co-ordination of activities. Indeed, at the Halifax Summit G-7 leaders asked that efforts be made to increase co-operation and co-ordination between the IMF and the World Bank. The heads of both institutions have put considerable effort into fulfilling that objective. Two particular examples – the joint preparation of a proposed program of assistance for HIPC countries and co-operation on addressing financial sector reform – are examined below. Both the IMF and the World Bank are actively involved with the United Nations and governments in the process of planning the United Nations Financing for Development Conference, which will be held in 2002. Details are provided in a separate section below.

Strengthening Financial Sectors

Problems in the financial sector, and especially the banking system, can disrupt growth and macroeconomic stability and can spill over regionally and internationally, as highlighted by the emerging market financial crises of the late 1990s. In response to concerns about such problems, the IMF and World Bank are devoting increasing attention to financial sector issues. Discussions in both institutions in the past couple of years have focused on how they can assist member countries to establish and maintain sound financial systems.

The special Financial Sector Liaison Committee, composed of senior staff from the Fund and the World Bank, helps ensure effective collaboration between the two institutions on financial sector issues and enhance operational co-ordination on work in the financial sector in individual countries.

To help identify and evaluate vulnerabilities in financial systems, and assess observance of core principles, standards and good practices by member countries, the IMF and World Bank introduced the joint Financial Sector Assessment Program (FSAP) on a pilot basis for a one-year period in May 1999. All 12 FSAP pilot missions were completed by April 2000. Following the spring 2000 review of the experience with the FSAP pilot, the IMF and World Bank agreed to extend the FSAP and expand the coverage to another 24 countries in 2001.

Information on financial system standards assessed under the FSAP is used to support Fund surveillance through the Financial System Stability Assessments (FSSAs), which are provided to the Executive Board as background to the Article IV consultation process. The summary assessments of standards contained in FSSAs become modules of the Reports on the Observance of Standards and Codes.

The FSSAs include a form of “peer review” in that they are prepared with the participation of outside experts drawn from national supervisory agencies. This represents the operationalization of Canada’s peer review proposal made at the IMF meetings in April 1998.

Canada was the first industrialized country to undergo an FSSA. IMF and World Bank staff members and outside specialists from Australia, Brazil, Germany, Sweden and the United States conducted a pilot review of Canada’s financial system in October 1999. The results of the peer review were released in the staff report for the 2000 Article IV consultation with Canada. Overall, the assessment found Canada’s financial system to be among the soundest in the world (see <http://www.imf.org/external/pubs/cat/longres.cfm?sk&sk=3420.0>).

The international financial institutions’ mandate to strengthen financial systems, promote good governance and fight corruption encompasses the enhancement of a country’s capacity to combat money laundering and financial abuse. At the Prague IMF/World Bank Annual Meetings, the International Monetary and Financial Committee recognized that the Fund has to play its role as part of the international efforts to protect the integrity of the international financial system against financial abuse, including through its efforts to promote sound financial sectors and good governance. It asked the Fund to explore how to incorporate work on financial abuse, particularly with respect to international efforts to fight money laundering, into its activities. It called on the Fund to prepare a joint paper with the World Bank on their respective roles in combatting money laundering and financial crime for discussion by their Boards before the spring International Monetary and Financial Committee/Development Committee meetings, and asked them to report to the meetings on the status of their efforts.

Following the recommendation of the Financial Stability Forum, the IMF also agreed to carry out assessments of offshore financial centres (OFCs) to help them identify and reduce vulnerabilities in their financial systems. The IMF expects to complete 12 OFC assessments in 2001.

Multilateral Debt Relief

At the Halifax Summit in June 1995, the G-7 countries urged the Bretton Woods institutions to develop a comprehensive approach to address the special problems of the poorest countries with large multilateral debt burdens. This was to be done through the flexible application of existing instruments and the creation of new mechanisms for debt relief. Just over a year later, at the 1996 annual meetings of the IMF and World Bank, the details of a new debt initiative for the HIPC countries were endorsed by the membership of the two institutions.

The primary goal of this initiative is to ensure that HIPC's demonstrating a track record of sustained good policy performance are able to achieve overall external debt sustainability, strengthen their poverty reduction programs and permanently "exit" from future debt rescheduling exercises.

Between its inception and the Köln Summit in 1999, debt relief under the original HIPC framework was agreed to for seven countries – Bolivia, Guyana, Burkina Faso, Côte d'Ivoire, Mali, Mozambique and Uganda – totalling US\$3.5 billion in present-value terms, or a reduction in nominal debt service of about US\$6.9 billion.

In the fall of 1998 the international community officially noted that the HIPC Initiative was not delivering its promise of debt sustainability and poverty reduction. Debt relief was too little, too late and available to too few countries. Canada, other donor countries and civil society called for and submitted proposals for an enhanced HIPC Initiative. At the Köln Summit in June 1999, G-7 leaders collectively agreed on enhancements to the HIPC Initiative to provide deeper, faster and broader debt relief with an enhanced link to poverty reduction. The G-7 debt plan adopted many of Canada's proposals, and the emphasis on poverty reduction reflects the core mandate of the Canadian development assistance program. In the fall of 1999 the World Bank and IMF endorsed an enhanced HIPC debt initiative and introduced Poverty Reduction Strategy Papers (PRSPs) as the main mechanism for ensuring that gains secured from debt relief are used to invest in social sectors, particularly in health and education.

The enhanced HIPC debt initiative promises faster, deeper and broader debt relief. Debt relief will be faster since the multilateral creditors are agreeing, for the first time, to provide debt relief starting at the point of decision on a country's eligibility for HIPC relief. Moreover, the country could benefit from the bulk of debt relief earlier by accelerating its reform efforts. The new HIPC debt initiative, once fully implemented, will also deliver over US\$28 billion, instead of some US\$13 billion under the original HIPC Initiative. Moreover, among the 41 HIPC's, 37 countries are now expected to be eligible for enhanced debt relief, compared to 29 under the original HIPC framework.

The enhanced HIPC debt initiative will further reduce debt service ratios and release considerable resources for social sector expenditures and other key priorities. The new PRSPs will serve as a tool to strengthen the linkages between debt relief and poverty reduction and to ensure that the resources released from debt relief mean additional monies for social spending and poverty reduction programs. The PRSPs are to be developed by the individual HIPC governments in consultation with the international financial institutions and broad segments of civil society, and will guide country assistance programs of both the IMF and the World Bank. The PRSPs, by putting the HIPC's in the driver's seat, hold the promise of accelerating poverty reduction.

In 2000 the IMF and World Bank implemented the enhanced HIPC debt initiative, striving to reach the target of 20 countries with debt relief packages by year-end. In total, by the end of 2000, 22 countries qualified for debt relief worth US\$20 billion in present-value terms, which will save these countries US\$34 billion in debt service over time – money that can be used for critical investments in social priorities. According to World Bank estimates, HIPC debt relief alone will cut in half the debt burdens of these countries. Moreover, with bilateral creditors providing additional debt reduction under traditional debt relief mechanisms and, in some cases, 100-per-cent debt forgiveness, these countries will see their debt levels reduced by two-thirds. All 22 countries have in place at least interim poverty reduction strategies to ensure debt relief savings are allocated to development priorities, especially health and education.

Looking ahead, 15 countries with unsustainable debt burdens remain. Many of them are engaged in civil or military conflict or are working towards peace and reconstruction. Canada and its G-7 partners are currently engaged in discussions with these countries with a view to promoting a speedy return to peace and early access to HIPC debt relief.

Canada has been at the forefront of international efforts for a swift and decisive approach to the debt burdens of the world's poorest countries both multilaterally and bilaterally. Multilaterally, Canada has consistently advanced the debt relief agenda by:

- leading efforts in the G-7 for the enhanced HIPC debt initiative (announced in September 1999), which is broadly in line with the Canadian proposals announced by Prime Minister Jean Chrétien in March 1999; debt relief will more than double to US\$28.6 billion;
- contributing C\$215 million to the debt relief trust funds at the IMF (C\$65 million) and World Bank (C\$150 million) to ensure timely debt relief for deserving countries;
- calling on all bilateral creditors to put in place a moratorium on debt payments from reforming HIPCs;
- proposing at the Commonwealth Finance Ministers Meeting in September 2000 the creation of a committee comprising HIPCs to give voice to the concerns of the poorest countries regarding implementation and progress of the enhanced HIPC Initiative; this proposal was endorsed by Commonwealth finance ministers; and
- calling for flexibility in linking HIPC debt relief to the PRSP process to avoid delaying debt relief to deserving countries.

Bilaterally, Canada is helping the poorest countries by:

- as of January 1, 2001, introducing a debt moratorium stopping the collection of debt payments from 11 reforming HIPC countries on loans outstanding as of March 31, 1999;
- having forgiven \$1.3 billion in Official Development Assistance (ODA) debt to 46 developing countries since 1978; this includes all of its ODA debt to 22 HIPC countries at a cost of \$900 million; of the HIPC countries, only Burma currently has ODA debt to Canada;
- providing development assistance since 1986 on a grant basis; therefore Canada is not contributing to a worsening of the debt problems in the poorest countries; and
- having contributed \$8 million to the Central American Emergency Trust Fund at the World Bank to provide debt relief to those countries devastated by Hurricane Mitch.

In the fall of 1998 Canada became a leading voice in calling for HIPC reforms. On March 25, 1999, Prime Minister Jean Chrétien announced the Canadian proposals to enhance debt relief and, in so doing, Canada emerged as a leader among the G-7 on the debt issue. Moreover, Canada pledged to provide 100-per-cent debt relief to the poorest countries. The February 2000 budget expanded the 100-per-cent debt forgiveness to all eligible HIPC countries that are making a real effort to improve the well-being of their citizens. Seventeen countries expected to require HIPC assistance have debts owing to Canada, totalling over C\$1 billion. On January 1, 2001, Canada stopped collecting debt payments from 11 reforming countries and pledged to put in place a debt moratorium for the remaining 6 countries once they are committed to the principles of peace and good governance.

Existing Mechanisms for Assisting Heavily Indebted Poor Countries

World Bank Mechanisms

Regular Lending – The World Bank makes IDA credits available on highly concessional terms. In general, these take the form of 35-year or 40-year loans which carry no interest rate charges.

Enhanced Access – Countries which are making special efforts to clear their arrears or undertake comprehensive debt workouts are given increased access to relatively scarce IDA resources.

The Fifth Dimension Facility – IDA-only countries that have incurred past market-rate borrowings from the IBRD also receive annual interest rate subsidies. In recent years these have had the effect of reducing the interest rate on the earlier IBRD loans from an average of about 6 per cent to less than 1 per cent.

IDA-Only Debt Reduction Facility – The IBRD provides grant financing (which carries no interest or principal) to eliminate up to 100 per cent of the debt that IDA-only countries owe to commercial banks. To date this World Bank facility has extinguished US\$3.8 billion of commercial-bank debt at no cost to these developing countries.

International Monetary Fund Mechanisms

Surveillance of Policies – In individual countries the IMF provides advice encouraging the adoption of policies that provide a basis for sustained economic growth and price stability. More broadly, IMF surveillance of the global monetary system is aimed at promoting the balanced growth of world trade and an orderly and stable system of exchange rates.

Poverty Reduction and Growth Facility – The Poverty Reduction and Growth Facility (PRGF) is the IMF's major source of concessional financing for low-income countries undertaking major reform efforts in the context of an IMF program. In recognition of the special challenges of these countries, the PRGF provides loans that carry longer maturity periods and significantly lower interest rates than regular IMF arrangements.

Technical Assistance – Both the IMF and World Bank provide substantial technical assistance to low-income countries to help strengthen their debt management policies.

World Bank and IMF Participation in the United Nations Financing for Development Conference

In January 2000 the United Nations (UN) General Assembly recommended that a high-level Financing for Development (FFD) “event” be convened in 2001. The purpose of the event, which is now scheduled for early 2002, is to discuss national, international and systemic issues relating to financing for developing countries in light of increasing financial and economic interdependence under globalization. Participants will also likely discuss financing of proposals endorsed by major UN conferences and summits during the 1990s. The UN is working with the World Bank, IMF and World Trade Organization in preparing for the conference. Civil society is engaged in the process through a series of regional advance preparatory consultations and will be invited to participate in the event itself.

The UN FFD is served by a Bureau comprising 15 UN representatives and co-chaired by the Permanent Representatives of Denmark and Thailand. There is also an FFD Secretariat, which includes staff seconded from the World Bank. Technical working groups, staffed from stakeholder institutions (including the Fund and Bank), were established to examine the six issues on the FFD agenda: domestic resource mobilization, private flows, trade, Official Development Assistance, debt and systemic issues. Their work has fed into the UN Secretary General’s report released in January 2001.

That report was the focus of discussions at the February 12-23 Preparatory Committee meeting in New York. There will be two more Preparatory Committee meetings in May 2001 and early 2002. There have also been a series of meetings over the past year to help prepare for the event. These have included a series of regional meetings, as well as special meetings with representatives of the international NGO and business communities. The format and venue for the 2002 event remain to be determined. The final outcome or product of the event (e.g. a declaration, an action plan) is also not yet known.

The UN Secretary General recently established a panel to advise him on FFD issues and help build momentum for the event. The panel is headed by Dr. Ernesto Zedillo, former President of Mexico, and includes many well-known persons such as Robert Rubin, former US Treasury Secretary. Their report is expected to be ready by May 2001. The UN is hoping that finance ministries will be engaged in the FFD process and event, along with foreign ministries, which are traditionally responsible for UN affairs, and development co-operation ministries and agencies.

ANNEX 1

Active IMF Lending Arrangements – As of December 31, 2000

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Stand-By Arrangements – Total			32,172.69	19,346.28
Argentina ¹	March 10, 2000	March 9, 2003	10,585.50	8,997.67
Bosnia and Herzegovina	May 29, 1998	May 29, 2001	94.42	13.99
Brazil ¹	December 2, 1998	December 1, 2001	10,419.84	2,550.69
Ecuador	April 19, 2000	April 18, 2001	226.73	113.38
Estonia	March 1, 2000	August 31, 2001	29.34	29.34
Gabon	October 23, 2000	April 22, 2002	92.58	79.36
Latvia	December 10, 1999	April 9, 2001	33.00	33.00
Lithuania	March 8, 2000	June 7, 2001	61.80	61.80
Nigeria	August 4, 2000	August 3, 2001	788.94	788.94
Pakistan	November 29, 2000	September 30, 2001	465.00	315.00
Panama	June 30, 2000	March 29, 2002	64.00	64.00
Papua New Guinea	March 29, 2000	May 28, 2001	85.54	56.66
Romania	August 5, 1999	February 28, 2001	400.00	260.25
Turkey ¹	December 22, 1999	December 21, 2002	8,676.00	5,832.20
Uruguay	May 31, 2000	March 31, 2002	150.00	150.00
Extended Fund Facility arrangements – Total			9,112.57	6,758.51
Bulgaria	September 25, 1998	September 24, 2001	627.62	104.62
Columbia	December 20, 1999	December 19, 2002	1,957.00	1,957.00
FYR Macedonia	November 29, 2000	November 28, 2003	24.12	22.97
Indonesia	February 4, 2000	December 31, 2002	3,638.00	2,786.85
Jordan	April 15, 1999	April 14, 2002	127.88	91.34
Kazakhstan	December 13, 1999	December 12, 2002	329.10	329.10
Peru	June 24, 1999	May 31, 2002	383.00	383.00
Ukraine	September 4, 1998	September 3, 2001	1,919.95	1,017.73
Yemen, Republic of	October 29, 1997	March 1, 2001	105.90	65.90

¹ Includes amounts under the Supplemental Reserve Facility.

ANNEX 1

Active IMF Lending Arrangements – As of December 31, 2000 (*cont'd*)

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Poverty Reduction and Growth Facility arrangements – Total			2,870.28	1,676.05
Albania	May 13, 1998	July 31, 2001	45.04	9.41
Benin	July 17, 2000	July 16, 2003	27.00	20.20
Bolivia	September 18, 1998	September 17, 2001	100.96	56.10
Burkina Faso	September 10, 1999	September 9, 2002	39.12	27.94
Cambodia	October 22, 1999	October 21, 2002	58.50	41.79
Cameroon	December 21, 2000	December 20, 2003	111.42	95.50
Central African Republic	July 20, 1998	July 19, 2001	49.44	32.96
Chad	January 7, 2000	January 7, 2003	36.40	26.00
Côte d'Ivoire	March 17, 1998	March 16, 2001	285.84	161.98
Djibouti	October 18, 1999	October 17, 2002	19.08	13.63
FYR Macedonia	November 29, 2000	November 28, 2003	10.34	8.61
Gambia	June 29, 1998	June 28, 2001	20.61	6.87
Ghana	May 3, 1999	May 2, 2002	191.90	120.85
Guinea	January 13, 1997	January 12, 2001	70.80	15.73
Guinea-Bissau	December 15, 2000	December 14, 2003	14.20	9.12
Guyana	July 15, 1998	July 14, 2001	53.76	28.88
Honduras	March 26, 1999	March 25, 2002	156.75	64.60
Kenya	August 4, 2000	August 3, 2003	190.00	156.40
Kyrgyz Republic	June 26, 1998	June 25, 2001	73.38	28.69
Malawi	December 21, 2000	December 20, 2003	45.11	38.67
Mali	August 6, 1999	August 5, 2002	46.65	33.15
Mauritania	July 21, 1999	July 20, 2002	42.49	30.35
Moldova	December 15, 2000	December 14, 2003	110.88	101.64
Mozambique	June 28, 1999	June 27, 2002	87.20	33.60
Nicaragua	March 18, 1998	March 17, 2001	148.96	33.64
Niger	December 14, 2000	December 21, 2003	59.20	50.74
Rwanda	June 24, 1998	June 23, 2001	71.40	19.04
São Tomé and Príncipe	April 28, 2000	April 28, 2003	6.66	4.76
Senegal	April 20, 1998	April 19, 2001	107.01	42.80
Tajikistan	June 24, 1998	December 24, 2001	100.30	34.02
Tanzania	March 31, 2000	March 30, 2003	135.00	95.00
Uganda	November 10, 1997	March 31, 2001	100.43	8.93
Zambia	March 25, 1999	March 28, 2003	254.45	224.45
Total			44,155.54	27,780.84

ANNEX 2

IBRD Loans and IDA Credits – Fiscal Year 2000 (July 1, 1999 – June 30, 2000)

	IBRD Amount	IDA Amount	Total No.	Total Amount
(in millions of US dollars)				
By area				
Africa	97.6	2,061.4	69	2,159.1
East Asia	2,495.3	483.8	28	2,979.1
Europe and Central Asia	2,733.1	309.1	47	3,042.1
Latin America and the Caribbean	3,898.1	165.3	40	4,063.5
Middle East and North Africa	760.2	159.8	18	920.0
South Asia	934.2	1,178.1	21	2,112.4
Total	10,918.6	4,357.6	223	15,276.2
By purpose				
Agriculture	768.6	356.6		1,125.2
Economic policy	759.6	527.2		1,286.8
Education	215.3	468.7		684.0
Electric power and energy	746.5	247.7		994.2
Environment	454.1	60.0		514.1
Finance	1,660.8	167.2		1,828.0
Health, nutrition and population	407.6	579.4		987.0
Mining	54.5	–		54.5
Multisector	561.0	165.5		726.5
Oil and gas	143.3	23.7		167.0
Private sector development	5.0	216.3		221.3
Public sector management	1,806.2	455.9		2,262.1
Social protection	716.6	384.4		1,101.0
Telecommunications	83.3	26.0		109.3
Transportation	1,155.1	534.9		1,690.0
Urban development	587.2	34.4		621.6
Water supply and sanitation	793.9	109.7		903.6
Total	10,918.6	4,357.6		15,276.2

ANNEX 3

IBRD Loans and IDA Credits to Developing Countries

	IBRD		IDA		Total	
	No.	Amount	No.	Amount	No.	Amount
(in millions of US dollars)						
By fiscal year¹						
Cumulative to 1968	549	11,418.1	116	1,831.8	665	13,249.9
Total 1969-1973	374	8,917.8	273	3,931.6	647	12,849.4
Total 1974-1978	666	24,372.3	376	7,947.4	1,042	32,319.7
Total 1979-1983	711	44,908.0	518	16,368.1	1,229	61,276.1
1983-1984	129	11,947.2	106	3,575.0	235	15,522.2
1984-1985	131	11,356.3	105	3,028.1	236	14,384.4
1985-1986	131	13,178.8	97	3,139.9	228	16,318.7
1986-1987	127	14,188.2	108	3,485.8	235	17,674.0
1987-1988	118	14,762.0	99	4,458.7	217	19,220.7
1988-1989	119	16,433.2	106	4,933.6	225	21,366.8
1989-1990	121	15,179.7	101	5,522.0	222	20,701.7
1990-1991	126	16,392.2	103	6,293.3	229	22,685.5
1991-1992	112	15,156.0	110	6,549.7	222	21,705.7
1992-1993	122	16,944.5	123	6,751.4	245	23,695.9
1993-1994	124	14,243.9	104	6,592.1	228	20,836.0
1994-1995	134	16,852.6	108	5,669.2	242	22,521.8
1995-1996	129	14,656.0	127	6,864.0	256	21,520.0
1996-1997	141	14,525.0	100	4,622.0	241	19,147.0
1997-1998	151	21,086.2	135	7,507.8	286	28,594.0
1998-1999	131	22,182.3	145	6,811.8	276	28,994.1
1999-2000	97	10,918.6	126	4,357.6	223	15,276.2
Total	4,443	349,618.9	3,186	120,240.9	7,629	469,859.8

¹ Fiscal years are those of the World Bank Group (July 1 to June 30).

ANNEX 4

Disbursements by IBRD and IDA Borrowers – Goods and Services From Canada – To June 30, 2000

	IBRD Amount	IDA Amount	Total Amount
(in millions of US dollars)			
By calendar year			
Cumulative to December 1960	133.5	—	133.5
1961	8.2	—	8.2
1962	3.7	—	3.7
1963	5.6	7.4	13.0
1964	4.7	1.8	6.5
1965	5.4	2.7	8.1
1966	11.6	5.3	16.9
1967	13.2	14.7	27.9
1968	6.3	7.8	14.1
1969	4.4	11.0	15.4
1970	7.6	1.3	8.9
1971	11.1	2.2	13.3
1972	10.5	2.3	12.8
1973	12.4	5.1	17.5
1974	15.8	8.4	24.2
1975	22.1	15.0	37.1
1976	25.7	10.8	36.5
1977	34.5	4.8	39.3
1978	26.1	5.5	31.6
1979	44.4	8.1	52.5
1980	51.5	7.8	59.3
1981	94.3	14.5	108.8
1982	75.0	17.6	92.6
1983	82.3	26.9	109.2
1984	92.6	54.3	146.9
1985	94.3	39.7	134.0
1986	184.8	46.8	231.6
1987 (January – June)	92.8	23.4	116.2

ANNEX 4

Disbursements by IBRD and IDA Borrowers – Goods and Services From Canada – To June 30, 2000 (*cont'd*)

	IBRD	IDA	Total
	Amount	Amount	Amount
	(in millions of US dollars)		
By fiscal year¹			
1987 – 1988	182.1	47.4	229.5
1988 – 1989	197.0	45.0	242.0
1989 – 1990	164.0	41.0	205.0
1990 – 1991	139.0	34.0	173.0
1991 – 1992	131.0	38.0	169.0
1992 – 1993	151.0	41.0	192.0
1993 – 1994	115.0	69.0	184.0
1994 – 1995	123.0	48.0	171.0
1995 – 1996	169.0	56.0	225.0
1996 – 1997	113.0	42.0	155.0
1997 – 1998	82.0	32.0	114.0
1998 – 1999	69.0	37.0	106.0
1999 – 2000	73.0	22.0	95.0
Total	2,833.0	872.0	3,705.0
Per cent of total disbursements	2.35	1.85	2.21
Per cent of FY 2000 disbursements	3.32	1.78	2.78

¹ Fiscal years are those of the World Bank Group (July 1 to June 30).

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country – As of June 30, 2000

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Borrower or guarantor				
Afghanistan	–	230.1	20	230.1
Africa region	259.8	45.5	12	305.3
Albania	–	541.4	39	541.4
Algeria	5,656.0	–	65	5,656.0
Angola	–	310.8	11	310.8
Argentina	17,771.8	–	106	17,771.8
Armenia	12.0	583.4	22	595.4
Australia	417.7	–	7	417.7
Austria	106.4	–	9	106.4
Azerbaijan	–	411.2	13	411.2
Bahamas	42.8	–	5	42.8
Bangladesh	46.1	9,262.8	164	9,308.9
Barbados	103.2	–	11	103.2
Belarus	170.2	–	3	170.2
Belgium	76.0	–	4	76.0
Belize	71.8	–	8	71.8
Benin	–	733.5	50	733.5
Bhutan	–	64.3	9	64.3
Bolivia	299.3	1,569.2	75	1,868.5
Bosnia and Herzegovina	–	585.2	28	585.2
Botswana	280.7	15.8	25	296.5
Brazil	28,702.8	–	256	28,702.8
Bulgaria	1,430.8	–	22	1,430.8
Burkina Faso	1.9	927.2	51	929.1
Burundi	4.8	741.0	49	745.8
Cambodia	–	385.1	15	385.1
Cameroon	1,347.8	1,062.7	71	2,410.5
Cape Verde	–	149.4	15	149.4
Caribbean region	83.0	43.0	6	126.0
Central African Republic	–	431.5	26	431.5
Chad	39.5	704.9	39	744.4
Chile	3,585.9	19.0	61	3,604.9
China	24,778.8	9,946.7	227	34,725.5
Colombia	9,831.6	19.5	158	9,851.1
Comoros	–	101.7	16	101.7
Congo, Democratic Republic of	330.0	1,151.5	66	1,481.5
Congo, Republic of	216.7	183.6	20	400.3
Costa Rica	921.5	5.5	39	927.0
Côte d'Ivoire	2,887.9	1,830.5	86	4,718.4
Croatia	762.7	–	15	762.7
Cyprus	418.8	–	30	418.8
Czech Republic	776.0	–	3	776.0

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country – As of June 30, 2000 (*cont'd*)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Denmark	85.0	–	3	85.0
Djibouti	–	90.6	12	90.6
Dominica	3.1	14.1	4	17.1
Dominican Republic	868.3	22.0	32	890.3
Eastern Africa region	–	45.0	1	45.0
Ecuador	2,624.3	36.9	73	2,661.2
Egypt, Arab Republic of	4,497.5	1,984.0	104	6,481.5
El Salvador	820.6	25.6	34	846.2
Equatorial Guinea	–	45.0	9	45.0
Eritrea	–	150.4	6	150.4
Estonia	150.7	–	8	150.7
Ethiopia	108.6	2,902.7	72	3,011.3
Fiji	152.9	–	12	152.9
Finland	316.8	–	18	316.8
France	250.0	–	1	250.0
Gabon	227.0	–	14	227.0
Gambia	–	213.2	25	213.2
Georgia	–	557.2	24	557.2
Ghana	207.0	3,544.9	106	3,751.9
Greece	490.8	–	17	490.8
Grenada	3.8	8.8	2	12.7
Guatemala	1,058.1	–	33	1,058.1
Guinea	75.2	1,148.2	57	1,223.4
Guinea-Bissau	–	259.9	22	259.9
Guyana	80.0	307.6	29	387.6
Haiti	2.6	626.5	37	629.1
Honduras	717.3	1,011.9	56	1,729.2
Hungary	4,333.6	–	40	4,333.6
Iceland	47.1	–	10	47.1
India	26,762.4	27,027.8	412	53,790.2
Indonesia	27,056.3	1,188.2	290	28,244.5
Iran, Islamic Republic of	2,290.1	–	41	2,290.1
Iraq	156.2	–	6	156.2
Ireland	152.5	–	8	152.5
Israel	284.5	–	11	284.5
Italy	399.6	–	8	399.6
Jamaica	1,326.0	–	62	1,326.0
Japan	862.9	–	31	862.9
Jordan	1,916.7	85.3	66	2,002.0

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country –
As of June 30, 2000 (*cont'd*)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Kazakhstan, Republic of	1,819.1	–	21	1,819.1
Kenya	1,200.7	2,870.8	119	4,071.5
Korea, Republic of	15,647.0	110.8	120	15,757.8
Kyrgyz Republic	–	534.4	21	534.4
Lao People's Democratic Republic	–	576.0	27	576.0
Latvia	355.4	–	15	355.4
Lebanon	920.1	–	17	920.1
Lesotho	155.0	303.2	30	458.2
Liberia	156.0	114.5	33	270.5
Lithuania	349.9	–	14	349.9
Luxembourg	12.0	–	1	12.0
Macedonia, FYR of	205.5	293.8	17	499.3
Madagascar	32.9	1,853.0	82	1,885.9
Malawi	124.1	1,874.5	75	1,998.6
Malaysia	4,150.6	–	87	4,150.6
Maldives	–	64.9	7	64.9
Mali	1.9	1,381.4	62	1,383.3
Malta	7.5	–	1	7.5
Mauritania	146.0	595.9	49	741.9
Mauritius	417.8	20.2	35	438.0
Mexico	31,178.8	–	173	31,178.8
Moldova	302.8	146.0	15	448.8
Mongolia	–	207.7	12	207.7
Morocco	8,442.8	50.8	128	8,493.6
Mozambique	–	1,973.6	37	1,973.6
Myanmar	33.4	804.0	33	837.4
Nepal	–	1,612.0	71	1,612.0
Netherlands, The	244.0	–	8	244.0
New Zealand	126.8	–	6	126.8
Nicaragua	233.6	875.4	52	1,109.0
Niger	–	826.9	46	826.9
Nigeria	6,248.2	982.9	101	7,231.1
Norway	145.0	–	6	145.0
Organization of Eastern Caribbean States countries	24.5	12.6	3	37.1
Oman	157.1	–	11	157.1

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country – As of June 30, 2000 (cont'd)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Pakistan	6,614.2	5,468.1	191	12,082.3
Panama	1,179.8	–	42	1,179.8
Papua New Guinea	729.3	113.2	42	842.5
Paraguay	807.9	45.5	42	853.4
Peru	5,148.2	–	85	5,148.2
Philippines	10,993.9	294.2	159	11,288.1
Poland	5,130.2	–	33	5,130.2
Portugal	1,338.8	–	32	1,338.8
Romania	5,308.4	–	62	5,308.4
Russia	11,811.5	–	44	11,811.5
Rwanda	–	929.4	50	929.4
Samoa	–	61.0	9	61.0
São Tomé and Príncipe	–	58.9	8	58.9
Senegal	164.9	1,863.1	95	2,028.1
Seychelles	10.7	–	2	10.7
Sierra Leone	18.7	458.7	27	477.4
Singapore	181.3	–	14	181.3
Slovak Republic	135.0	–	2	135.0
Slovenia	177.7	–	5	177.7
Solomon Islands	–	49.9	8	49.9
Somalia	–	492.1	39	492.1
South Africa	287.8	–	12	287.8
Spain	478.7	–	12	478.7
Sri Lanka	210.7	2,316.4	85	2,527.1
Saint Kitts and Nevis	1.5	1.5	1	3.0
Saint Lucia	10.0	12.7	4	22.7
Saint Vincent and the Grenadines	1.4	6.4	2	7.8
Sudan	166.0	1,352.9	55	1,518.9
Swaziland	104.8	7.8	14	112.6
Syrian Arab Republic	613.2	47.3	20	660.5
Taiwan, Province of China	329.4	15.3	18	344.7
Tajikistan	–	208.2	13	208.2
Tanzania	318.9	3,467.8	114	3,786.7
Thailand	7,979.1	125.1	124	8,104.2
Togo	20.0	733.5	42	753.5
Tonga	–	5.0	2	5.0
Trinidad and Tobago	313.6	–	21	313.6
Tunisia	4,625.7	74.6	116	4,700.3
Turkey	15,540.2	178.5	139	15,718.7
Turkmenistan	89.5	–	3	89.5

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country – As of June 30, 2000 (*cont'd*)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Uganda	9.1	2,862.3	73	2,871.4
Ukraine	2,840.1	–	17	2,840.1
Uruguay	1,748.6	–	46	1,748.6
Uzbekistan	463.0	–	10	463.0
Vanuatu	–	15.4	4	15.4
Venezuela	3,298.1	–	39	3,298.1
Vietnam	–	2,640.3	27	2,640.3
Western Africa region	6.1	52.5	4	58.6
Yemen, Republic of	–	1,775.8	118	1,775.8
Yugoslavia	6,114.7	–	90	6,114.7
Zambia	679.1	2,386.1	75	3,065.2
Zimbabwe	983.2	661.9	36	1,645.1
Bank-wide total	349,583.1	120,218.7	7,615	469,801.8

ANNEX 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2000, by Country (July 1, 1999 – June 30, 2000)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Borrower or guarantor				
Albania	–	59.6	6	59.6
Algeria	97.5	–	3	97.5
Angola	–	33.0	1	33.0
Argentina	57.4	–	2	57.4
Armenia	–	60.0	2	60.0
Azerbaijan	–	42.0	1	42.0
Bangladesh	–	171.9	4	171.9
Benin	–	37.2	3	37.2
Bhutan	–	22.4	2	22.4
Bolivia	–	4.8	1	4.8
Bosnia and Herzegovina	–	37.6	3	37.6
Brazil	1,290.0	–	8	1,290.0
Bulgaria	220.7	–	4	220.7
Burkina Faso	–	25.0	1	25.0
Burundi	–	47.0	2	47.0
Cambodia	–	41.7	4	41.7
Cameroon	53.4	37.7	3	91.1
Cape Verde	–	3.0	1	3.0
Central African Republic	–	28.0	2	28.0
Chad	39.5	82.7	4	122.2
China	1,672.5	–	8	1,672.5
Colombia	941.0	–	6	941.0
Costa Rica	32.6	–	1	32.6
Côte d'Ivoire	–	28.2	2	28.2
Croatia	29.0	–	1	29.0
Djibouti	–	15.0	1	15.0
Dominican Republic	17.3	–	2	17.3
Ecuador	181.7	–	2	181.7
Egypt, Arab Republic of	50.0	–	1	50.0
Estonia	25.0	–	1	25.0
Georgia	–	47.6	2	47.6
Ghana	–	42.1	3	42.1
Guinea	–	19.0	1	19.0
Guinea-Bissau	–	25.0	1	25.0
Guyana	–	4.8	1	4.8
Honduras	–	33.3	1	33.3
Hungary	31.6	–	1	31.6

ANNEX 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2000, by Country (July 1, 1999 – June 30, 2000) (cont'd)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
India	934.2	866.5	11	1,800.7
Indonesia	13.0	120.4	3	133.4
Iran, Islamic Republic of	232.0	–	2	232.0
Jordan	34.7	–	1	34.7
Kazakhstan, Republic of	140.0	–	1	140.0
Kyrgyz Republic	–	34.4	3	34.4
Latvia	40.4	–	1	40.4
Lebanon	136.6	–	2	136.6
Lesotho	–	11.2	2	11.2
Lithuania	56.6	–	2	56.6
Madagascar	–	109.6	3	109.6
Malawi	–	28.9	1	28.9
Maldives	–	17.6	1	17.6
Mali	–	139.9	3	139.9
Mauritania	–	83.1	4	83.1
Mauritius	4.8	–	1	4.8
Mexico	1,169.3	–	4	1,169.3
Mongolia	–	32.0	1	32.0
Morocco	7.5	–	2	7.5
Mozambique	–	161.6	4	161.6
Nepal	–	54.5	1	54.5
Nicaragua	–	120.9	5	120.9
Niger	–	10.4	1	10.4
Nigeria	–	80.0	3	80.0
Papua New Guinea	132.3	–	4	132.3
Peru	94.6	–	3	94.6
Philippines	277.5	–	3	277.5
Poland	160.7	–	3	160.7
Romania	112.6	–	4	112.6
Russia	90.0	–	2	90.0
Rwanda	–	60.0	3	60.0
Senegal	–	160.8	5	160.8
Sierra Leone	–	55.0	2	55.0
Slovenia	9.5	–	1	9.5
Solomon Islands	–	4.0	1	4.0
Sri Lanka	–	45.2	2	45.2
Saint Lucia	1.5	1.5	1	3.0

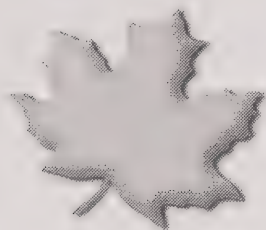
ANNEX 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2000,
by Country (July 1, 1999 – June 30, 2000) (*cont'd*)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Tajikistan	–	27.9	3	27.9
Tanzania	–	329.7	6	329.7
Thailand	400.0	–	1	400.0
Tunisia	202.0	–	2	202.0
Turkey	1,769.6	–	4	1,769.6
Uganda	–	147.9	2	147.9
Ukraine	18.3	–	1	18.3
Uruguay	107.9	–	2	107.9
Uzbekistan	29.0	–	1	29.0
Venezuela	5.0	–	1	5.0
Vietnam	–	285.7	3	285.7
Yemen, Republic of	–	144.8	4	144.8
Zambia	–	270.4	4	270.4
Zimbabwe	–	5.0	1	5.0
Bank-wide total	10,918.6	4,357.6	223	15,276.2

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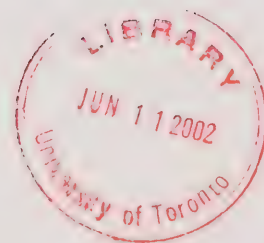
OPERATIONS UNDER

THE BRETTON WOODS

AND RELATED

AGREEMENTS ACT

2001



Canada



REPORT ON

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THE BRETTON WOODS

AND RELATED

AGREEMENTS ACT

2001

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INTRODUCTION

The Bretton Woods institutions – the International Monetary Fund (the IMF or the Fund) and the World Bank¹ – were founded at a conference held in Bretton Woods, New Hampshire, in 1944. The IMF was established to promote the smooth functioning of the international monetary system, encourage international trade and support high rates of sustainable economic growth. To achieve these goals, it exercises a surveillance function by monitoring members' economic policies, provides policy advice and technical assistance, and extends short- and medium-term financial assistance to countries faced with balance of payments difficulties.

The World Bank's goal is to reduce poverty by raising living standards and promoting sustainable development in developing countries. As the premier development institution in the world, it provides a wide range of assistance to developing countries, including lending and technical assistance for projects that promote sustainable growth and an improved quality of life, and economic policy advice.

Canada is the eighth largest member of the IMF, along with China, after the six other Group of Seven (G-7) countries and Saudi Arabia, and it is the sixth largest member of the World Bank. On the Executive Boards of the two institutions, Canada also represents Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. On the Bank's Executive Board Canada also represents Guyana. Canada's formal participation in the two institutions is authorized under the Bretton Woods and Related Agreements Act. Section 13 of the Act states that:

The Minister of Finance shall cause to be laid before Parliament, on or before March 31 next following the end of each calendar year or, if Parliament is not then sitting, on any of the first thirty days next thereafter that either House of Parliament is sitting, a report containing a general summary of operations under this Act and details of all those operations that directly affect Canada, including the resources and lending of the World Bank Group, the funds subscribed or contributed by Canada, borrowings in Canada and procurement of Canadian goods and services.

¹ In this document "World Bank" and "Bank" refer to the International Bank for Reconstruction and Development and the International Development Association. "World Bank Group" and "Bank Group" refer to the broader group of World Bank institutions that includes the International Finance Corporation and the Multilateral Investment Guarantee Agency, as well as the two institutions of the World Bank proper. For more details see the box on page 33.

This report has been prepared in accordance with this provision. The sections that follow review the activities and operations of first the IMF and then the Bank for the year 2001. A final section deals with issues common to both institutions. The annexes contain detailed numerical summaries of the year's activities.

Roles of the International Monetary Fund and World Bank

International Monetary Fund

- Oversees the international monetary system and promotes international monetary co-operation.
- Promotes orderly exchange rate relations among member countries.
- Provides short- to medium-term financial support to members facing balance of payments difficulties.
- Provides support for poverty reduction through promotion of economic stability.
- Draws its financial resources primarily from the quota subscriptions of its members.

World Bank

- Provides support for poverty reduction in developing countries through investments in such areas as health and education.
- Promotes economic development and structural reform in developing countries.
- Assists developing countries through long-term financing of development projects and programs.
- Provides special financial assistance to the poorest developing countries through the International Development Association.
- Stimulates private enterprise development and private investment in developing countries primarily through its affiliates, the International Finance Corporation and the Multilateral Investment Guarantee Agency.
- Enhances the flow of capital and technology for productive purposes to developing countries by providing investment insurance against non-commercial risks for investments in developing countries.
- Secures most of its financial resources by borrowing on international capital markets.

INTERNATIONAL MONETARY FUND

Overview

As a major trading nation, Canada benefits from a strong international monetary system that facilitates the free movement of goods, services and capital. The IMF promotes international financial stability and economic growth through the provision of policy, financial and technical assistance to countries experiencing unsustainable external imbalances and related economic difficulties.

Benefits of Membership

IMF membership provides a number of specific benefits:

- The Minister of Finance is a Governor of the Fund and elects an Executive Director to its 24-member Executive Board. This representation allows Canada to have high-level influence on decisions taken by the IMF on specific country assistance programs and major policy issues affecting the world financial system.
- The IMF, through its regular surveillance of the Canadian economy, provides Canada with an independent source of policy advice on macroeconomic policies and engages in regular dialogue on these policies with Canadian officials at the Department of Finance, other government agencies and the Bank of Canada.
- The efforts of the IMF to make sure that countries abide by their obligations, including those under Fund-supported programs, help ensure that they repay Canadian bilateral loans and use our bilateral development assistance effectively.
- Canada earns a market rate of return on its financial position in the IMF.
- Were Canada to experience severe balance of payments difficulties, it would have the right to draw on IMF financial assistance.

How the IMF Works

The IMF works like a credit union. It has a large pool of liquid assets, or resources, comprising national currencies, special drawing rights,¹ and other widely used international currencies provided by its members, which it makes available to help members finance temporary balance of payments problems.

Members provide resources to the IMF in amounts determined by “quotas” reflecting each country’s relative importance in the world economy. A country’s quota in turn helps determine the amount of Fund resources that it may use should it experience economic difficulties. At the end of 2001 the total quotas for the Fund’s 183 members was SDR 212.4 billion.

A member country uses the general resources of the IMF by purchasing (drawing) other members’ currencies with an equivalent amount of its own currency. A member repurchases (repays) its own currency from the IMF with other members’ currencies over a specified period of time, with interest. In this way, a member country receives credit from other members.

Members seeking financial assistance can draw on four “credit tranches,” each amounting to 25 per cent of their quota. For access to resources beyond the first credit tranche, the member and the IMF have to reach an agreement on a set of economic measures and reforms aimed at removing the source of the country’s balance of payments difficulty and creating the conditions necessary for sustainable non-inflationary growth.

Depending on the prospective duration of the problem, these measures are agreed to as part of a Stand-By Arrangement, which typically lasts 12 to 18 months, or an Extended Fund Facility, which generally runs for three years. Short-term financing for balance of payments difficulties related to crises of market confidence is also available through the Supplemental Reserve Facility, created in December 1997. A precautionary line of defence is available through Contingent Credit Lines, established in April 1999, to countries that are pursuing sound policies but are nonetheless vulnerable to contagion.

Members can also use financial facilities created for specific purposes, including the Compensatory Financing Facility, which provides financial support to members experiencing temporary export shortfalls or other unforeseen adverse external shocks.

Concessional financing to low-income developing countries under the Poverty Reduction and Growth Facility (formerly the Enhanced Structural Adjustment Facility) is made available in the form of low-interest loans with extended maturity periods.

¹ The special drawing right (SDR) is an international reserve asset created by the IMF and allocated periodically to its members as a supplement to their foreign currency and gold reserves. The SDR is also the standard unit of account for the IMF’s operations. It represents a weighted basket of four major currencies: the US dollar, the Japanese yen, the pound sterling and the euro. At the end of 2001 the exchange rate was SDR 1 = C\$2.00.

Canada's Priorities at the IMF

Global Economic and Financial Stability

Recent emerging market financial crises have underscored the need to strengthen the global financial architecture – the global institutions and rules that govern international economic and financial co-operation. In the past year work continued on ways to increase the effectiveness of the IMF in a world of large-scale private capital flows to help ensure that the benefits of globalization are shared as widely as possible.

In co-operation with its international partners, Canada has played an active role in identifying areas where reforms are required and taking steps to implement those reforms. In 1999 and 2000 G-7 finance ministers made a number of recommendations intended to help reduce the risk of financial crises and make it easier to manage future crises more effectively. In their July 2001 Report to Leaders for the Genoa Summit, the G-7 finance ministers noted the substantial progress achieved over the last year in a number of areas, and highlighted in particular that the IMF had:

- completed a major review of IMF lending facilities to enable a more efficient use of resources;
- resolved to put crisis prevention at the heart of its activities;
- undertaken important initiatives to strengthen financial sector surveillance;
- considerably intensified its efforts to increase collaboration with the World Bank in the financial sector to identify countries' vulnerabilities and, in the poorest countries, to fight poverty;
- made progress in operationalizing a framework for private sector involvement in crisis prevention and resolution; and
- taken significant measures to enhance its transparency and accountability, especially through the establishment of an Independent Evaluation Office.

Progress was also made in defining and adopting a more focused role for the IMF by concentrating on the promotion of macroeconomic and financial stability. While these efforts were welcome, G-7 finance ministers noted that substantial work remained to be done on private sector involvement, the implementation of internationally agreed standards and codes, and the process of opening access to capital markets.

A new dimension was added to the IMF's activities following the terrorist attacks of September 11. The attacks led to the cancellation of the 2001 Annual Meetings of the IMF and World Bank in Washington in late September and the postponement of the associated meetings of the International Monetary and Financial Committee of the IMF and the joint IMF/World Bank Development Committee. Given the importance of the work of these committees and the need to deal with the new challenges faced by the global economy, Canada hosted meetings of the International Monetary and Financial Committee and Development Committee in Ottawa in November, along with the Annual Meeting of G-20 Finance Ministers and Central Bank

Governors. The meetings were successful in affirming a willingness to take timely action, if necessary, to maintain stability and invigorate growth, and in reaching agreement on an action plan to combat the financing of terrorism.

Looking forward, a key objective for Canada is to ensure that the Fund has the tools to promote international financial stability. To meet this objective, Canada supports:

- strengthened surveillance to prevent crises through greater attention to financial vulnerabilities and increased transparency of information;
- implementation of international codes and standards, with the IMF playing the lead role in assessing countries' observance;
- expanded financial sector work to combat money laundering and terrorist financing;
- appropriate private sector involvement in the prevention and resolution of crises;
- more focused conditionality and greater country ownership of IMF-supported programs;
- safeguarding of IMF resources;
- strengthened governance and accountability of the IMF; and
- adequate technical assistance.

Canada continues to place a high priority on reducing poverty and ensuring that debt relief does indeed go to this purpose. The IMF plays a crucial role in supporting macroeconomic stability as a key tool for poverty reduction in the poorest countries and integrating its efforts with those of the World Bank in working with countries to reduce poverty.

The Fund's involvement in the key areas outlined above, and Canada's priorities related to these efforts, are described in more detail in the section entitled "Efforts to Promote International Financial Stability," which follows the next section.

Economic and Financial Developments in Emerging Markets

Emerging market economies, which were already experiencing a growth slowdown in the first half of 2001, were significantly affected by the events of September 11 and the subsequent deterioration in global economic conditions.

In general, Latin American countries experienced much weaker growth in 2001 compared to 2000 due to weak global demand and low commodity prices. Foreign direct investment flows to the Latin American region dropped on reduced expectations of economic performance. Mexico fell into recession as the country's exports to the U.S., its main trading partner, declined sharply. A drought-induced energy shortage in Brazil constrained its economic performance. Some emerging market economies were already in tenuous

financial situations. Argentina, which had received considerable financial assistance from the IMF and other international financial institutions earlier in the year, announced in December 2001 that it was formally suspending payments on its sovereign obligations.

In 2001 Argentina was in its third year of recession, and investor and depositor confidence in the country continued to deteriorate over the course of the year. Despite the introduction of sweeping fiscal reforms in July, the economic situation worsened and Argentina required further assistance from the IMF. In September the Fund approved a US\$8-billion augmentation to Argentina's existing three-year Stand-By Arrangement/Supplemental Reserve Facility. However, Argentina's commitment to a zero fiscal deficit appeared too difficult to honour, and investor sentiment weakened. As financial pressures mounted in December, limits were placed on withdrawals from the banking system in an attempt to avert a run on commercial banks. A formal default on Argentina's sovereign debt was announced towards the end of the year, and the decade-old peg between the peso and US dollar was broken.

Turkey, which had also received financial assistance from the IMF and the World Bank earlier in the year, fell further into recession and required additional multilateral assistance. Problems in the banking sector were exacerbated by increased political uncertainty early in 2001. As market confidence plummeted, interest rates rose to unprecedented levels. Faced with dwindling foreign reserves, the authorities were forced to abandon the quasi-fixed exchange rate and adopt a freely floating exchange rate in late February 2001. With Turkey's economy in recession and government debt spiralling up, the IMF approved additional financial support of US\$8 billion in May 2001. This additional support was provided as a result of significant progress on economic reform. It augmented the existing Stand-By Arrangement and brought the total amount of IMF financing to US\$19.4 billion. Turkish authorities also held meetings with private sector creditors to encourage them to roll over Turkish debt obligations. Despite the additional assistance, Turkey's economic and financial situation deteriorated in the aftermath of September 11. Negotiations began on a new Stand-By Arrangement, and a facility worth US\$16.3 billion (including amounts undisbursed under previous arrangements) was approved in February 2002.

In East Asia there was a sharp reduction in economic growth in 2001 compared to 2000, with the information technology export-oriented economies the most adversely affected. Despite the slower growth and the negative impact of September 11, financial markets strengthened over the course of 2001. Stock markets recovered during the fourth quarter, and currencies remained stable despite the sharp weakening of the yen and the uncertainty caused by the Argentine debt default. However, corporate and financial sector restructuring in the region remained incomplete. Indonesia in particular appeared to fall behind in its reform objectives through the year. However, after a nine-month delay in disbursements, IMF lending resumed in September 2001 after the Indonesian government made firmer commitments to implement key reforms.

In Russia a large fiscal surplus and growing international reserves, along with announced contingency measures to contain spending, improved the government's ability to meet its debt obligations. As a result, Russia was able to start repaying its past IMF loans at an accelerated rate. Approximately US\$3.9 billion was repaid to the IMF in 2001 and Russia's total debt outstanding to the Fund fell to US\$7.7 billion by year-end.

IMF-Led Packages for Emerging Economies

Contributions (in billions of US dollars)

Donor	Turkey	Argentina
IMF (% of quota)	25.3 (2,050%)	22.0 (800%)
Type of program and approval date	Supplemental Reserve Facility (December 2000), Three-Year Stand-By Arrangement (February 2002)*	Supplemental Reserve Facility (December 2000), Three-Year Stand-By Arrangement (September 2001)**
Other international financial institutions	1.2	
Total	26.5	22.0

* A three-year Stand-By Arrangement worth US\$4 billion was originally approved in December 1999 and was augmented by US\$8 billion in May 2001. A Supplemental Reserve Facility worth US\$7.4 billion was approved in December 2000. A new three-year Stand-By Arrangement worth US\$16.3 billion, which included US\$4.2 billion remaining under the previous Stand-By Arrangement as well as US\$6.2 billion in Supplemental Reserve Facility repayments, was approved in February 2002. Net of these amounts, the new Stand-By Arrangement is worth US\$5.9 billion.

**A three-year precautionary Stand-By Arrangement worth US\$7.2 billion was approved in March 2000. The Stand-By Arrangement was activated and augmented by US\$6.8 billion in December 2000, bringing the size of the program to US\$14 billion, of which US\$3 billion was in the form of a Supplemental Reserve Facility. The Stand-By Arrangement was further augmented by US\$8 billion in September 2001.

Efforts to Promote International Financial Stability

Strengthening Surveillance to Prevent Crises

There is a consensus in the international community that more effective surveillance must be at the centre of the IMF's efforts to strengthen the world economy and the international financial architecture. In light of large-scale private capital flows, the IMF has shifted the nature and scope of its surveillance. Over the past three years the IMF has:

- sharpened its focus on macroeconomic policy, capital flows and structural issues that have an impact on macroeconomic stability, particularly in the financial sector, and on exchange rates;
- developed new analytical tools for assessing external and financial sector vulnerability that will help countries assess reserve adequacy, manage their reserves, and monitor and manage their debt so as to prevent crises; and
- promoted greater transparency and the flow of information, for both member policies and the Fund's own activities.

Canada supports measures to enhance the transparency and accountability of the Fund's own operations. The Fund had responded to the concerns of members regarding transparency by making available significantly more information on its activities. The key initiatives include:

- Publishing more information about IMF surveillance of members, including Public Information Notices (PINs), which provide background information on a member country's economy and the IMF's assessment of the country's policies and prospects. PINs are issued at the country's request following the conclusion of the Fund's regular Article IV consultation with the country. Full Article IV staff reports are now published when the country concerned agrees. Canada's most recent PIN and Article IV report can be found on the IMF Web site at <http://www.imf.org/external/country/can/index.htm>. An increasing number of countries have agreed to the publication of PINs.
- Encouraging countries to publish the "mission statements" that are prepared at the time of the IMF's annual Article IV consultations with member countries. Prior to the preparation of the staff's report to the Executive Board, the IMF mission often provides the authorities with a statement of its preliminary findings at the conclusion of its discussions with them. A number of countries, including Canada, are now releasing these statements. Canada's most recent mission statement can be found on the IMF Web site at <http://www.imf.org/external/country/can/index.htm>.
- Releasing more information about countries' IMF-supported programs and the Executive Board reviews of these programs. The Fund has adopted a policy establishing a presumption in favour of publication of Letters of Intent and other documents that underpin Fund-supported programs.

- Publishing staff papers on key policy issues and issuing PINs of the Board discussions of these papers. In addition, the Fund is increasingly posting draft papers on important policy issues on its Web site so that the views of civil society and other segments of the public can be taken into account. As well, more financial information is being released about the IMF, including the sources of financing for IMF lending (the quarterly financial transactions plan).
- Providing the public with substantially expanded access to the Fund's archival material.

The Fund is also working to deepen its understanding of international capital markets and financial flows. In 2001 it established the International Capital Markets Department in order to enhance its ability to identify crisis symptoms early enough to address them effectively. The new department will also strengthen the Fund's ability to help countries gain access to international capital markets, an important step in helping the poorest countries make a breakthrough in poverty reduction.

A key lesson drawn from recent financial crises is the need for proper sequencing and pace of capital account liberalization. Countries with weak, underdeveloped or poorly regulated financial markets are highly vulnerable to the risks associated with open capital flows. In July 2001 the Fund had a preliminary discussion of some general principles which could be helpful to countries in sequencing and co-ordinating capital account liberalization, including the desirability in most cases of liberalizing long-term flows (particularly foreign direct investment) ahead of short-term flows. Discussions on this issue will continue, including through the Capital Markets Consultative Group, which was established in 2000 to promote a better dialogue between member countries and private investors and creditors.

Implementation and Assessment of International Codes and Standards

To help improve economic policy making and strengthen the international financial system, the international community has called upon the IMF and other standard-setting agencies to develop standards and codes covering a wide range of economic and financial areas. In this effort, the Fund is responsible for its core areas of expertise. For example, in 1998 the Fund adopted a Code of Good Practices on Fiscal Transparency to guide member countries in enhancing the accountability and credibility of fiscal policy. In 1999 the Fund adopted a similar code with respect to monetary and financial policies. Other institutions, such as the World Bank, Organisation for Economic Co-operation and Development and Basle Committee, take responsibility for other areas, including insolvency regimes, corporate governance and banking supervision.

The Financial Stability Forum has highlighted 12 codes and standards (in the areas of macroeconomic policy and data transparency; corporate governance; and financial regulation and supervision) as key for sound financial systems and deserving priority implementation, depending on country

circumstances. Both the G-7 and Group of Twenty (G-20) have encouraged countries to articulate publicly their adoption of standards, announce their plans of action and participate in IMF-led assessment programs.

Implementation is being encouraged among other things through the provision of targeted technical assistance, in accordance with countries' domestic priorities and circumstances. The G-7 has welcomed the contribution of the IMF, World Bank and national authorities toward addressing resource constraints to implementing standards by providing advice and assistance, and called on the international financial institutions to catalogue and assess these technical resources and demands to ensure that support is channelled effectively.

There is a general consensus that the IMF has a key co-ordinating role in assessing observance of codes and standards through its Reports on the Observance of Standards and Codes (ROSCs), as well as through the joint IMF-World Bank Financial Sector Assessment Program (FSAP). Recent developments regarding FSAPs are covered in the "Joint Issues" section.

The Fund has developed a modular approach to ROSCs whereby comprehensive assessments of members' adherence to a range of internationally recognized standards can be built up over time, standard by standard. ROSCs summarize the extent to which countries observe these standards, focusing primarily on the areas of direct operational concern to the IMF, such as data dissemination and fiscal transparency. ROSC modules for the financial sector are now being derived as a by-product of the FSAP process. Canada was the first country to publicly release as a ROSC the assessment of compliance with international standards conducted during its FSAP. Canada has undertaken ROSCs in the areas of banking and insurance supervision, fiscal policy transparency, monetary and financial policy transparency, payments systems and securities regulation. Canada's ROSCs can be found on the IMF Web site at <http://www.imf.org/external/np/rosc/rosc.asp#c>. Overall, as of December 2001, 201 ROSC modules had been produced for 67 countries.

The Financial Stability Forum

The Financial Stability Forum was established in April 1999 to promote international financial stability through enhanced information exchange and international co-operation in financial market supervision and surveillance. The Forum is well placed to promote this objective as it regularly brings together senior officials from finance ministries, central banks and financial sector supervisory bodies from countries with significant financial centres, as well as representatives of the international supervisors, the Bank for International Settlements, the IMF and the World Bank. The Forum has the role of identifying gaps in the regulation of financial systems and developing solutions to address these vulnerabilities.

At its October 25, 2000, meeting in Montréal, the G-20 reiterated its belief that adherence to international codes and standards can reduce countries' vulnerability to financial crises. A majority of G-20 members have now fulfilled their commitment, made at the inaugural meeting of G-20 ministers and governors in Berlin in December 1999, to undertake the completion of ROSCs and FSAPs. At their November 16-17, 2001, meeting in Ottawa, the G-20 countries reaffirmed their determination to promote the adoption of international standards and codes for transparency, macroeconomic policy, sound financial sector regulation and corporate governance.

The Group of Twenty

The Group of Twenty (G-20) was established in the fall of 1999 to ensure broader participation in discussions on international financial affairs among countries whose size or strategic importance gives them a particularly crucial role in the global economy. The G-20 consists of finance ministers and central bank governors from 19 industrialized and emerging market countries, as well as representatives from the European Union, the European Central Bank, and the IMF and the World Bank and their policy committees. Canada's Minister of Finance, Paul Martin, was named the first chair of the G-20.

Following the 1995 Halifax Summit the Fund initiated work on new data standards to better inform markets of financial and economic developments and to strengthen Fund surveillance. Countries that are capital market borrowers are now making comprehensive data available to the public on a timely basis under the IMF's Special Data Dissemination Standard (SDDS) established in April 1996. Information on the statistical practices of members subscribing to the new standard is posted on the IMF's Dissemination Standards Bulletin Board (DSBB) on the Internet (<http://dsbb.imf.org/>). Canada was one of the first countries to subscribe to the new standard, and information on Canada's statistical practices is posted on the DSBB at <http://dsbb.imf.org/country/cancats.htm>.

In 1999 the Fund strengthened the SDDS by requiring the disclosure of additional information on international reserves on a monthly basis, with weekly disclosure of key reserve assets to be encouraged. In July 1999 Canada became one of the first countries to disseminate the additional data required by the expanded standard. Moreover, Canada releases key data on its international reserves on a weekly basis. In 2000 a new external debt category with quarterly data disclosure was incorporated into the standard. Subscribing countries have a three-year transition period, ending in March 2003, to implement the new data category. The Fund reviewed progress under the SDDS in July 2001 and approved the integration of a data quality assessment framework methodology into the structure of the data module of ROSCs.

Financial Sector Work

The financial crises experienced by emerging market economies in recent years highlighted the critical importance of concerted action to strengthen the international financial system. In the past two years the Fund has developed a comprehensive approach to promoting the stability of members' domestic financial sectors as an element of efforts to safeguard the stability of the international system (the main developments in this area are covered in the "Joint Issues" section).

After September 11, 2001, an action plan was formulated by the Fund to intensify its contribution to global efforts to combat money laundering and the financing of terrorism. At its November meeting in Ottawa, the International Monetary and Financial Committee endorsed the Fund's action plan to intensify its involvement in this area, consistent with its mandate and expertise. The Fund will:

- extend its involvement beyond money laundering to efforts aimed at countering terrorist financing;
- expand its anti-money laundering work, including through FSAPs, to cover legal and institutional frameworks;
- accelerate its program of offshore financial centres, and undertake onshore assessments in the context of the FSAP;
- help countries identify gaps in their anti-money laundering and anti-terrorist financing regimes in the context of Article IV voluntary questionnaires;
- enhance its collaboration with the Financial Action Task Force to develop a mutually acceptable global standard on anti-money laundering; and
- intensify its provision of technical assistance to enable members to implement the agreed international standards and extend it to include help for the creation of financial intelligence units (FIUs).

Moreover, the International Monetary and Financial Committee called for further international action to combat the financing of terrorism and urged all countries to take measures as soon as possible, preferably by February 1, 2002, on:

- establishment of FIUs to receive and process reports of suspicious transactions from the financial sector, and to monitor and analyze suspected terrorist funds;
- provisions to ensure the sharing of information and co-operation between national FIUs; and
- deployment of technical assistance through support provided either bilaterally or through an international trust fund.

An interim report will be made to the International Monetary and Financial Committee in April 2002 on progress in the implementation of the Fund's action plan. The Fund will undertake a full review of its work in this area in time for the next Annual Meetings in the fall of 2002.

Private Sector Involvement in Crisis Prevention and Resolution

Ensuring that private investors are appropriately engaged in the prevention and resolution of international financial crises is generally agreed to be a critical aspect of ongoing initiatives to strengthen the international financial architecture. Indeed, an approach where the official sector finances the massive outflow of capital characteristic of recent crises is neither sustainable, given that the scale of private capital flows dwarfs the resources of the official sector, nor desirable, as it serves to distort the assessment of risk and return in international capital markets.

Canada has been a strong advocate of the important role the IMF should play in establishing an operational framework for improved private sector involvement in crisis management. This reflects the IMF's position at the centre of the international financial system and, more importantly, its ability to help facilitate a more orderly and co-operative resolution of international payment problems.

The IMF has made encouraging progress over the past year on this issue. The most notable development was the proposal by IMF management in November 2001 for a sovereign debt restructuring mechanism, which would be analogous to domestic bankruptcy regimes. This is clearly a welcome initiative, and it will be studied further in 2002. However, establishing a formal bankruptcy mechanism will take time. In the interim, steps must be taken to improve the existing approach to crisis management. Canada attaches priority to strengthening the crisis management framework in the short term by establishing credible limits to official financing, for all but exceptional cases; and developing clearer guidelines for standstills and lending into arrears.

Focusing Conditionality and Fostering Ownership

An important feature of IMF arrangements is the "conditionality" that borrowing countries undertake to correct their underlying balance of payments problems and to restore their ability to repay the Fund. Over time conditionality has broadened in scope and become more complex, leading to concerns about its impact and effectiveness. In the fall of 2000 the Fund's Managing Director proposed ways to streamline and focus Fund conditionality. Critical elements of the strategy include a sharper focus on factors that are relevant to a country's macroeconomic and financial stability. Where structural reforms that are critical to a program's success lie outside the Fund's core areas, the Fund should work with the World Bank and other international financial institutions, which have a comparative advantage in the design and monitoring of these measures. The overall objective is to enhance the success and effectiveness of conditionality without weakening it.

The initial limited experience with streamlining is encouraging – structural measures in recent programs appear to be more prioritized and focused on the Fund's core areas of responsibility. For low-income countries, collaboration with the World Bank has been much improved through the Poverty Reduction Strategy Paper process. In November 2001 the Fund discussed how to

ensure that conditionality in Fund-supported programs be designed and applied in a way that reinforces national ownership and sustained implementation of country economic reforms. Ownership depends on both the content of the program and the process by which the program is negotiated. In this regard, there was a consensus that early involvement of country authorities in the design of a program is important, and that the process should encourage the authorities to consider various policy alternatives.

In early 2002 the Fund reviewed the modalities by which Fund financing is linked to policies, including the scope for basing conditionality on the achievement of specified outcomes, or results, rather than on specified policy actions. The discussion also examined the role of specific tools used to monitor the implementation of Fund-supported programs, such as prior actions, waivers and program reviews. Following a discussion of the lessons distilled from the review of conditionality, the Fund will formulate proposals before the 2002 Annual Meetings on new conditionality guidelines.

Reform of IMF Facilities

The IMF reformed its non-concessional lending facilities in 2000 to better reflect the changing nature of the global economy, ensure more effective use of IMF resources and shift the focus of Fund lending toward crisis prevention. In November 2000 agreement was reached on a streamlined structure of lending facilities that aims to encourage countries to seek private sources of capital and discourage excessively long or large use of IMF resources. The key changes are:

- The **Contingent Credit Lines facility**, which was established in 1999 to provide members that meet strict eligibility criteria with a precautionary line of defence against external contagion, and which has not been used, was enhanced by making resources more readily available. The interest rate charged has been reduced by halving the initial surcharge over the standard rate of charge to 150 basis points and reducing the commitment fee that applies to larger Fund arrangements. In addition, monitoring under the Contingent Credit Lines will be less intensive than under other arrangements.
- The terms of **Stand-By Arrangements** (the Fund's core lending instrument to address temporary payments imbalances) and the **Extended Fund Facility** (the Fund's facility for protracted balance of payments problems) have been adapted to encourage countries to avoid reliance on Fund resources for unduly long periods or in unduly large amounts.
- The problem of unduly long use of Fund resources will be addressed through the introduction of schedules of early repurchase expectations, under which members able to repay before the final maturities of their loans will be expected to do so.
- Interest surcharges have been added for the use of Fund resources above high levels of credit outstanding (i.e. above 200 per cent of quota) to discourage unduly large access.

- Use of the Extended Fund Facility will be confined to those cases where there is a reasonable expectation that a member's balance of payments difficulties will be relatively long-term, including because it has limited access to capital markets. In contrast to recent practice, the strength of the structural reform effort per se will not be considered sufficient reason for use of Extended Fund Facility resources. It is expected that the Extended Fund Facility would be especially appropriate for graduating Poverty Reduction and Growth Facility low-income countries and some transition economies that do not have access to capital markets.
- To provide additional safeguards for Fund resources, and to help ensure that the achievements of arrangements are preserved, it has been agreed there should be more formal post-program monitoring by the IMF of economic developments and policies following the expiration of arrangements. A presumption of more formal post-program monitoring would apply for members with substantial credit outstanding at the end of an arrangement.

In the period ahead it will be important that the Fund monitor its lending to ensure that the new streamlined structure of lending facilities leads to a more efficient use of resources and that it contributes to crisis prevention.

Safeguarding IMF Resources

In 2000 the Fund adopted a multi-faceted approach to strengthening the safeguards on the use of IMF resources. Central banks of member countries making use of Fund resources will have to publish annual financial statements, independently audited in accordance with internationally accepted audit standards. If vulnerabilities are identified in a country's ability to manage its resources, including IMF resources, IMF staff will propose remedies, including measures to be implemented before further disbursements of IMF funds. In 2002 the Fund will consider the experience with, and next steps for, the safeguard assessments of central banks.

Strengthening Governance and Accountability

Better information on the activities of the IMF contributes to greater public understanding of the institution. In addition to supporting measures to enhance the transparency and accountability of the IMF, one of Canada's priorities is the promotion of good governance. The Fund adopted guidelines in 1997 on its role in issues of governance and is more actively emphasizing the links between poor governance and weak economic performance. In February 2001 the Fund reviewed its experience in governance issues and concluded that the guidelines remained appropriate.

With respect to transparency and accountability, in the past year the IMF:

- Announced the initial work program of the Independent Evaluation Office (IEO), which had been established in April 2000 to undertake objective assessments of the IMF's operations, policies and programs. The IEO operates independently of IMF management and at arm's length from the Fund's Executive Board.

- The work program was developed following extensive consultations with government authorities, non-governmental organizations (NGOs), members of the academic community and representatives of the financial sector, as well as the staff, management and Executive Board of the IMF.
 - The first three projects, to be completed over the next year, will consist of: (1) an examination of fiscal adjustment in IMF-supported programs in a select group of low- and middle-income countries; (2) an evaluation of the role of the IMF in three recent capital account crisis cases (Brazil, Indonesia and Korea); and (3) an investigation of the IMF's role in those countries that have been repeat users of Fund financial resources.
 - The IEO intends to consult extensively with external stakeholders in deriving the detailed terms of reference for each study and give them further opportunities to comment when the completed evaluation reports are made public.
- It is also important that the IMF decision-making structure remain accountable. The key challenge is to make IMF quotas more reflective of developments in the world economy and to ensure that Fund governance arrangements are representative of the membership. In the past year the Fund reviewed the formulas that are used to help determine members' quotas, as well as the structure and content of possible alternative formulas. The Fund will give further consideration to the quota formula issue in 2002 and examine the issues for a potential quota increase as part of the next (twelfth) general review of quotas, which is scheduled to be completed by January 30, 2003.

Technical Assistance

In addition to its policy advice and financing, the IMF provides technical assistance to member countries in its areas of expertise – including macroeconomic policy, monetary and foreign exchange policy and systems, fiscal policy management, external debt and macroeconomic statistics. The main objective of technical assistance is to support members' efforts to strengthen their capacity – both human and institutional resources – to formulate and implement sound policies. Technical assistance also helps countries design appropriate macroeconomic and structural reforms, taking into account the lessons learned by other countries in addressing similar economic policy concerns. More recently it has been agreed that technical assistance should play a central role in supporting the work of the IMF in crisis prevention and management, in capacity building in low-income and transition countries, and in restoring macroeconomic stability in countries in the wake of crises.

Since the demand for IMF technical assistance normally exceeds the resources available, the IMF takes a number of considerations into account in setting priorities for country requests. These considerations were revised in 2001, and new guidelines, in the form of "filters," were approved. Under the revised guidelines, priorities for technical assistance will be set in accordance

with the IMF's core areas of specialization, its main program areas and its key policy initiatives, which will enable a more systematic alignment of resource commitments with institutional priorities.

As technical assistance projects have grown both larger and more complex, multiple sources of financing have been needed to underwrite costs. Large projects now commonly involve the IMF and multilateral agencies, such as the United Nations and the World Bank, as well as bilateral donors, including Canada. Canada's technical assistance collaboration with the IMF in the financial sector area in the Caribbean region is covered in the "Joint Issues" section.

The Special Drawing Right

- The special drawing right (SDR) is an international reserve asset created by the IMF and allocated periodically to its members as a supplement to their foreign currency and gold reserves.
- A general SDR allocation requires a determination by the IMF Board of Governors that there is a long-term global need to supplement existing reserve assets.
- SDRs were first allocated to members in 1970. There have been two other general allocations, the most recent undertaken in 1981. The outstanding stock of SDRs currently totals SDR 21.4 billion.
- In September 1997 IMF Governors approved a special one-time allocation of SDR 21.4 billion, which will ensure that all members receive an equitable share of cumulative SDR allocations (the amendment to ratify the allocation has not yet been accepted by a sufficient majority of members).
- Canada has received allocations totalling SDR 779.3 million. Following the special one-time allocation, Canada's allocations will increase to SDR 1,266.5 million.

Consideration of an SDR Allocation

The Fund's Articles of Agreement require that every five years the Fund consult the membership on whether or not there is broad support for a general SDR allocation based on the long-term global need to supplement existing international reserves. The Fund's Executive Board reviewed the issue in December 2001. Although there was substantial interest in considering the usefulness and implications of a general SDR allocation for the period 2002-06, there was not sufficiently broad support to make a specific proposal. While, at the time, the near-term outlook for the world economy was uncertain and could have been viewed as suggestive of the need for an SDR allocation, global growth was expected to pick up over the course of 2002 and balance of payments difficulties and their financing were anticipated to be much less acute than was the case at the time of the decision. In the majority view, the longer-term outlook did not provide strong evidence of a need to supplement global liquidity.

Also at the December discussion, most Executive Directors expressed concern about the delay in implementing the Fourth Amendment of the Articles of Agreement, providing for a special one-time allocation of SDRs, which had been approved by the Board of Governors in 1997. They strongly encouraged members that had not done so to ratify the Fourth Amendment as soon as possible. Canada ratified the amendment in 1998.

How to Access Information at the IMF

A vast array of Fund information – including fact sheets, press releases, speeches, the *IMF Survey*, annual reports, world economic outlooks, staff country reports and working papers – is available on the Fund's Web site at <http://www.imf.org/>. In addition, the IMF's Publications Services provides a wide variety of Fund documents on the policies and operations of the IMF, as well as world financial and economic developments:

- IMF annual reports
- *World Economic Outlook*
- *Global Financial Stability Report*
- IMF staff country reports
- *International Financial Statistics*
- *Annual Report on Exchange Arrangements and Exchange Restrictions*
- press releases
- *IMF Survey*

Publications Services is located at 700 – 19th Street N.W., Washington, DC 20431, USA. Phone: (202) 623-7430; fax: (202) 623-7201. Internet e-mail address: publications@imf.org.

Poverty Reduction and Debt Relief

Canada places a high priority on reducing poverty and ensuring that debt relief does indeed go to this purpose. Although the World Bank is the central institution for poverty reduction, macroeconomic stability – a key condition for achieving poverty reduction and growth – is the responsibility of the IMF. In conjunction with the enhanced debt reduction scheme for heavily indebted poor countries, and as part of its contribution to the global anti-poverty effort, the IMF replaced its concessional facility, the Enhanced Structural Adjustment Facility, with the more focused Poverty Reduction and Growth Facility in 1999. As a consequence, direct anti-poverty measures are playing a central role in programs supported by the IMF, World Bank and other lenders. Programs supported by the Poverty Reduction and Growth Facility (and the World Bank's concessional window – the International Development Association) are consistent with a comprehensive, nationally owned Poverty Reduction Strategy Paper prepared by the borrowing country and based on a process

involving the participation of civil society, NGOs, donors and international institutions. The Fund's role in this area is covered more extensively in the "World Bank" and "Joint Issues" sections.

Lending Developments in 2001

A core activity of the Fund is to provide short- and medium-term financial assistance to members faced with balance of payments difficulties. The objective is to enable countries facing such difficulties to correct temporary payments imbalances with a minimum of disruption to the international monetary system. The provision of financing from the IMF, as well as the additional financing that an arrangement with the Fund often attracts from other sources, enables countries to undertake smoother economic adjustment.

At the end of 2001 the IMF had lending arrangements worth SDR 57.8 billion in place for 55 member countries (see Annex 1). Drawings under lending commitments more than tripled in 2001 to SDR 24.6 billion. The increase in lending reflected the sharp slowdown in growth in almost all regions of the world, accompanied by a decline in trade growth, lower commodity prices and deteriorating financing conditions in emerging markets. The bulk of the non-concessional lending took place under Stand-By Arrangements, in line with the restructuring of the IMF's lending facilities in 2000 to confine use of the Extended Fund Facility to cases of longer-term balance of payments difficulties. Turkey, Argentina and Brazil received the largest disbursements, some of which were financed through the Supplemental Reserve Facility, the Fund's short-term lending facility that addresses crisis situations. There was an increase in net credit extended in 2001, as purchases exceeded repurchases (repayments). Korea and Russia, which had drawn large amounts during past financial crises, made large repayments.

Table 1
IMF Resource Flows

	2000	2001
	(in SDR billions)	
Total purchases	7.7	24.6
Of which:		
Stand-By Arrangements	5.8	23.0
Extended Fund Facility	1.3	0.7
Compensatory Financing Facility	0.0	0.0
Poverty Reduction and Growth Facility	0.5	0.9
Other	0.1	0.0
Total repurchases	15.8	14.1
Net repurchases	-8.1	10.5

Lending increased slightly under the IMF's concessional facility, the Poverty Reduction and Growth Facility. No drawings were made under the Compensatory Financing Facility, one of the Fund's other special-purpose facilities, which was streamlined and rationalized in early 2000.

Managing Canada's Interests at the IMF

The Minister of Finance is Canada's Governor at the IMF and is responsible for the management of Canadian interests at the Fund. The Minister exercises influence on IMF issues through Canada's Executive Director at the Fund's Executive Board, interventions at the spring and fall meetings of the International Monetary and Financial Committee, his plenary speech at the IMF and World Bank Annual Meetings, and periodic meetings with the Managing Director of the Fund (the Minister's speeches are available on the Department of Finance Web site at <http://www.fin.gc.ca/>). The Governor of the Bank of Canada is Canada's Alternate Governor of the IMF. The Governor also attends the Fund's spring and fall meetings.

The management of Canada's interests in the ongoing work of the IMF is the responsibility of the Executive Director, Ian E. Bennett, Canada's representative on the Executive Board. He is one of 24 Executive Directors. In addition to Canada, he represents 11 other countries (Ireland and 10 Caribbean countries), which form a constituency at the Executive Board. Of the 24 members of the current Executive Board, 12 are from developing or transition countries and 12 from industrialized countries. As the main decision-making body of the Fund, the Board normally meets three times a week.

The Department of Finance co-ordinates Canadian policy advice on IMF issues and Canada's operational interests in the IMF. The Bank of Canada also works closely with the Department of Finance in providing advice on issues of interest to Canada's Executive Director. Other involved government organizations include the Department of Foreign Affairs and International Trade and the Canadian International Development Agency. Within the Department of Finance, the International Trade and Finance Branch is responsible for conducting analyses and preparing advice on the policy issues and specific country programs that are brought before the Executive Board. The Department and Canada's Executive Director's office also work closely with Canada's World Bank Executive Director's office and meet frequently with Canadian NGOs.

Parliament is informed of the activities and operations of the Bretton Woods institutions through the tabling of the annual report on their operations, the communiqués of the International Monetary and Financial Committee and the Development Committee, and appearances of the Canadian Executive Directors and departmental officials before parliamentary committees.

Canada's Voting Record

Since most decisions at the Fund are taken on a consensus basis, formal votes by Governors and the Executive Board are rare. Canada attempts to influence the development of Fund policy proposals before they are brought to the Board (often through the circulation of memoranda outlining Canadian positions) or to influence other members in the course of Board discussions. But in 2001 Canada voted against an increase in the remuneration of IMF Executive Directors and in IMF staff salaries.

Canada's Office at the IMF

In addition to the Executive Director, Canada's office is staffed by two Canadian advisors and a technical assistant. Ireland staffs the Alternate Director's position and the Caribbean countries staff a third advisor's position.

The primary responsibility of the Executive Director's Office is to represent the interests of Canada and the other members of the constituency at the Fund's Executive Board. The office participates in the Board's discussions of a wide variety of policy, operational and administrative matters, including surveillance issues and country assistance requests and reviews.

Members of the Executive Director's Office

Executive Director	Ian E. Bennett
Irish Alternate Executive Director	Nicolas O'Murchu
Canadian Advisor	Paul Fenton
Caribbean Advisor	Peter Whitehall
Canadian Advisor	Frank Vermaeten
Canadian Assistant	Chris Faircloth
Administrative Assistant	Monique Chagnon
Administrative Assistant	Catherine Byrne
Administrative Assistant	Liz Craib
Phone/fax	(202) 623-7778/(202) 623-4712
Address	11-112, 700 – 19th Street N.W., Washington, DC 20431, USA

Canada's Financial Participation

Canada's financial participation in the IMF consists primarily of its quota subscription. Canada's quota following the increase associated with the Eleventh Review is SDR 6,369.2 million, or about 3 per cent of total quotas. Canada's quota subscription is a government asset, which is made available to the Fund partly in Canadian dollars and partly in reserve currencies, such as US dollars or SDRs. These latter non-Canadian dollar amounts continue to be part of Canada's foreign exchange reserves. As an asset, Canada's quota subscription is not recorded as an expenditure item in the budget of the Canadian government.

Only a tiny portion of the Canadian dollar part of its subscription is actually held in cash by the IMF. The balance is held by the Bank of Canada in the form of demand notes, which are available to the Fund in the event it needs to draw upon additional resources. Canada earns interest on its quota subscription when the Canadian dollar is used in Fund lending operations, i.e. is drawn by other member countries. In 2001 Canada received SDR 60.5 million on its net creditor position in the IMF. The net income from Canada's net creditor position with the Fund is paid into the Government of Canada's Exchange Fund Account, adding to the foreign exchange reserves.

Table 2

Canada's Financial Position in the IMF

	December 31, 2001	December 31, 2000
	(in SDR millions)	
Quota	6,369.2	6,369.2
Fund holdings of Canadian dollars	4,090.8*	4,443.4*
Reserve position in the Fund	2,278.4**	1,925.8**

* In accordance with Fund regulations, at least 0.25 per cent of Canada's quota is held by the IMF in a Canadian dollar cash deposit at the Bank of Canada. The Fund's remaining Canadian dollar holdings are in the form of non-interest-bearing demand notes, also kept by the Bank of Canada.

**This is the amount Canada is entitled to draw on demand from the IMF for balance of payments purposes. Canada's reserve position in the Fund is the result of the portion of Canada's quota subscription made available to the Fund over time in reserve currencies, the use of the Canadian dollar in Fund financial transactions with other members, and loans to the IMF under borrowing arrangements such as the General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB). As the name suggests, Canada's reserve position in the Fund is a part of Canada's official foreign exchange reserves.

At the end of the year Canada's holdings of SDRs amounted to SDR 489.0 million, or 62.7 per cent of Canada's cumulative allocation of SDRs. In 2001 Canada held SDRs in an amount below its allocation, and so paid net interest of SDR12.3 million.²

Last year, in line with earlier commitments, Canada made further contributions to the IMF's Poverty Reduction and Growth Facility, formerly the Enhanced Structural Adjustment Facility. The facility provides financial support on concessional terms to low-income countries facing protracted balance of payments problems. Canada's total commitment to the Poverty Reduction and Growth Facility is a loan of SDR 700 million and a grant of approximately SDR 190 million. At the end of 2001 loan payments under these arrangements totalled SDR 549.1 million of the SDR 700 million, and subsidy contributions equalled SDR 168.9 million of the SDR 190 million. In 2001 Canada received SDR 9.3 million in interest earned on loans to the Poverty Reduction and Growth Facility.

Further, Canada is a participant in a financing arrangement established to supplement the Fund's regular resources in the event of financial crises, the NAB, which was not activated in 2001 (see box below). Canada is also a participant in the GAB, an earlier credit arrangement established by the G-10. Canada's GAB commitment is the equivalent of SDR 892.5 million. This line of credit was not used in 2001.

New Arrangements to Borrow

The following are the main features of the NAB, which came into force in 1998:

- Participating countries will make loans to the IMF when supplementary resources are needed to forestall or cope with an impairment of the international monetary system, or deal with an exceptional situation that poses a threat to the stability of the system.
- Twenty-five countries have agreed to lend up to SDR 34 billion (about C\$68 billion) to the Fund in the case of financial emergencies.
- Canada's share in the arrangement is 4.1 per cent, in the form of a commitment to provide non-budgetary loans to the IMF from its international reserves.
- The NAB does not replace the GAB, which remains in force. However, the NAB will be the first and principal recourse of the IMF if supplementary resources are needed.

² When a member's holdings of SDRs is greater (lesser) than its cumulative allocation, that member (the Fund) receives interest on the difference.

Challenges Ahead

A key challenge for the Fund is to ensure that its mission meets the needs of an increasingly integrated global economic system. The evolution of the Fund's place in the international financial system must continue to reflect changes in the world economy. In particular, there is a need to assess the role of the Fund in a world of large-scale private capital flows. To meet these challenges:

- The Fund should continue to work in partnership with the World Bank and other global institutions to help countries adopt the policies that will enable them to benefit from globalization. The Fund is well placed to help ensure that the benefits of globalization are as widely shared as possible.
- The Fund also needs to continue its efforts to ensure appropriate private sector involvement in the prevention and resolution of crises. Further work with the international community is required to implement an operational framework for improved private sector involvement in crisis management, including through a new approach to sovereign debt restructuring.
- The Fund should work to make IMF quotas more reflective of developments in the world economy and ensure that Fund governance arrangements are representative.

WORLD BANK

Membership in the World Bank (the Bank) affords Canada an important voice on key development issues in the world's premier multilateral development institution. With 183 members,³ and loans and credits outstanding to 140 developing and transition member countries in fiscal year (FY) 2001⁴ totalling US\$205 billion, the Bank has a far-reaching impact on global development and poverty reduction. It provides policy advice and financial support crucial to improving borrowing members' longer-term development and poverty reduction prospects. It also assists members by providing concessional assistance and improved access to world financial markets for development purposes.

Canada's capital share of about 3 per cent gives it a seat on the Bank's Executive Board and on the Development Committee of the Boards of Governors of the Bank and the IMF. Canada has the opportunity at the Executive Board, in dialogue with Bank staff, and at the Annual Meetings of the Board of Governors (and the Development Committee) to provide direct input into the formulation of Bank policies and operational decisions. Canada and other shareholders help to guide the Bank in improving developing countries' economic, social and environmental performance. Through its engagement with the Bank, Canada's influence in developing countries can be leveraged beyond what can be achieved through bilateral programs. For example, Canada has played a leading role in the Bank's discussion of the implementation of the heavily indebted poor country (HIPC) debt relief initiative. In the context of the effort to combat the financing of terrorism after September 11, 2001, Canada has helped shape the Bank's efforts to strengthen monitoring in developing country financial institutions, including increased Bank technical assistance to these countries. Canada has also been involved in shaping the Bank's approach to post-conflict reconstruction in Afghanistan.

Bank membership also provides the Canadian government with access to the institution's research and policy work, which enriches our own understanding of international development. The Canadian International Development Agency (CIDA), for example, is able to draw on Bank analytic and technical expertise in order to gain a more comprehensive understanding of the social and economic policy environments that are conducive to effective aid delivery. Finally, Canada's membership allows Canadian companies and individuals substantial procurement opportunities – in 2001 they provided goods and services worth US\$120 million under Bank-financed contracts.

³ The Federal Republic of Yugoslavia joined the World Bank on May 8, 2001, becoming the institution's 183rd member.

⁴ The Bank's fiscal year begins on July 1 and ends June 30 the following calendar year.

Overview of Operations in 2001

In FY 2001 the World Bank committed loans and credits of US\$17.3 billion to 85 developing and transition countries (see Annex 2). While higher than the US\$15.3 billion for FY 2000, this amount was considerably below average annual commitments during the 1990s. Most of the decline in lending can be attributed to lower demand from emerging market economies for non-concessional financing through the International Bank for Reconstruction and Development (IBRD), the Bank's non-concessional financing arm. The IBRD committed US\$10.5 billion in new loans in FY 2001, slightly below the US\$10.9 billion committed in FY 2000 and significantly below amounts committed annually over the past 10 years. World Bank concessional lending through the International Development Association (IDA) increased to US\$6.8 billion in FY 2001, compared to US\$4.4 billion in FY 2000. IDA commitments in FY 2001 marked a return to levels of IDA lending consistent with commitments during the 1990s.

Geographic and Sectoral Focus of Lending

New IBRD lending commitments in FY 2001 were highest in the Latin America/Caribbean region at US\$4.8 billion, or 46 per cent of its financing, where some emerging market economies continued to borrow substantial sums. Three large borrowers accounted for the bulk of IBRD financing to the region: Mexico (US\$2 billion), Brazil (US\$1.7 billion) and Argentina (US\$440 million). The next largest area of concentration was the Europe/Central Asia region, where the institution committed US\$2.2 billion, or 21 per cent of its financing. Turkey accounted for roughly US\$1 billion of this amount. The South Asia region accounted for over US\$2 billion, or 19 per cent of new IBRD commitments, all of which was committed to India, which was the IBRD's largest client in FY 2001. The East Asia/Pacific region accounted for US\$1.1 billion, or 11 per cent, of new IBRD lending. China was the IBRD's largest client in this region in FY 2001, with new commitments totalling US\$790 million.

In FY 2001 IDA lending increased in all geographic areas apart from the Middle East/North Africa region, which represented only 2 per cent of IDA commitments. IDA lending to Africa reached the indicative target of 50 per cent of total new IDA commitments set by donors during the negotiations for the 12th IDA replenishment (see box on page 42). Regional lending in response to the HIV/AIDS pandemic, renewed lending to Ethiopia and Nigeria, and support for post-conflict reconstruction boosted IDA financing to the region. The South Asia and East Asia/Pacific regions accounted for 18 per cent and 15 per cent respectively of total IDA lending. The Europe/Central Asia and Latin America/Caribbean regions together accounted for 15 per cent of new loans. Ethiopia was the largest IDA borrower in FY 2001 (US\$667 million), followed by Vietnam (US\$629 million), India (US\$520 million), Kenya (US\$350 million) and Bangladesh (US\$280 million).

The Bank's strong commitment to investing in people is reflected in the sectoral breakdown of both IBRD and IDA lending operations. Support for social sector investments, in particular, remains a high priority for both IBRD and IDA operations. The education, health/nutrition/population and social protection operations accounted for 25 per cent of total World Bank lending in FY 2001, compared to 21 per cent in FY 2000. Such human development projects accounted for 21 per cent and 32 per cent respectively of IBRD and IDA lending in FY 2001. Conversely, the share of oil and gas, mining, and electric power and other energy projects has fallen from an average of 17 per cent of overall World Bank lending over the FY 1992-97 period to 5.4 per cent in FY 2001, reflecting the increased activity of other lenders in the resource and power sectors. The decline in resource lending also reflects a broader trend in Bank lending away from large projects to smaller operations in support of institution building and human development.

Deferred Drawdown Option Introduced

A substantial decline in demand from middle-income countries for IBRD financing after the East Asian financial crisis had subsided prompted Bank management to review the institution's responsiveness to middle-income country borrowers. The review resulted in the introduction by the Bank in 2001 of a "deferred drawdown" contingency financing option as a risk management tool for countries nearing IBRD graduation and enjoying good, yet uneven, access to financial markets. The option allows for a deferral of the disbursement of a loan for up to three years to help borrowers maintain ongoing structural and social investment programs if market borrowing should become difficult.

Non-Lending Operations

In FY 2001 the Bank continued its strong focus on non-lending services in order to enhance the developmental effectiveness of its operations. The Bank provides a wide range of advisory, analytical, training and knowledge-related services in support of building domestic capacities. Through its non-lending activities, the Bank provides valuable policy advice that can bolster the effectiveness of its investment and adjustment lending.

How the World Bank Group Works

The World Bank Group is made up of four complementary but distinct entities: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA) and the International Finance Corporation (IFC).

The IBRD and IDA (together commonly known as the World Bank) provide funding for investment projects and for adjustment – or economic and sector reform – operations. The IBRD lends on commercial terms (charging an interest rate that is slightly above its own borrowing costs) to better-off borrowing members, while IDA provides 35- and 40-year interest-free credits to the poorest borrowers. IDA is the largest source of development finance for the world's poorest countries. The IBRD raises its funds primarily on international markets on the strength of its triple-A credit rating. In effect, the IBRD on-lends to borrowing countries at a rate of interest much lower than that which they could secure on their own borrowings. IDA, on the other hand, is independent of the IBRD and receives grant funding from donors, loan repayments and allocations from IBRD net income. As of June 2001 outstanding IBRD loans and IDA credits amounted to US\$118.9 billion and US\$86.6 billion, respectively.

The IFC supplements the activities of the IBRD and IDA by undertaking investments on commercial terms in productive private sector enterprises. The IFC provides such services as direct private sector loans, equity investments, resource mobilization and technical assistance. As of June 2001 the total outstanding loans and equity investment of the IFC were equivalent to US\$11 billion. MIGA's mandate complements that of the IFC: it promotes private foreign direct investment in developing countries, primarily by providing insurance against non-commercial risk, such as the risk of currency inconvertibility during civil conflict. MIGA's outstanding portfolio as of June 2001 amounted to US\$5.2 billion.

Each of the 183 shareholders has a seat on the Board of Governors of the World Bank. Most decisions on policy, operational and administrative issues, however, have been delegated to the 24-member Executive Board. Membership on the Executive Board is evenly split between developed and developing countries. Given the Bank Executive Board's constituency representation system, the Executive Director for Canada also represents Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.

Strengthening the World Bank's Poverty Reduction Focus

Global Economic Slowdown

FY 2001 proved to be a challenging year for many of the Bank's clients. The global economy decelerated following a slowdown in the US economy in mid-2000. Growth in many developing countries slowed as investment contracted in East Asian economies and the effects of the US downturn rippled through Mexico and the rest of Latin America. Weak European and Japanese demand, slumping commodity prices and a sharp contraction in the growth of trade reduced growth in virtually all areas of the developing world. This situation was exacerbated by the terrorist attacks of September 11, 2001. Poverty expanded as developing countries faced falling export income, higher export transportation and insurance costs, increasing borrowing costs, declining tourism revenues and, in some cases, substantial refugee pressures. The Bank moved quickly to assist clients to cope with these sudden shocks by providing loans and technical assistance. On December 20, 2001, for example, the Bank approved a US\$75-million loan to support the Government of Jamaica's emergency economic rehabilitation program designed to help the country cope with the economic fallout stemming from September 11 and other shocks.

The Bank, as a member of the Afghanistan Reconstruction Steering Group (ARSG)⁵ and a vice-chair of its Implementation Group, is playing an important role in the international effort to support post-conflict reconstruction in Afghanistan. Together with the United Nations Development Programme and the Asian Development Bank, the Bank undertook a needs assessment in Afghanistan that will underpin the international community's assistance to the country. Afghanistan will become eligible for concessional Bank lending once its small amount of arrears to IDA is cleared. The Bank will also be working with the Asian Development Bank, UN agencies, bilateral donors and the European Bank for Reconstruction and Development to address economic problems that threaten stability in South and Central Asia.

⁵ Established by donors in November 2001, the ARSG is co-ordinating the international effort to provide assistance to Afghanistan. It is co-chaired by the European Union and the governments of the US, Japan and Saudi Arabia. In January 2002 the ARSG finalized the structure of its Implementation Group (IG). The IG will be chaired by the Afghan Minister of Finance, and representatives of the Bank, United Nations Development Programme, Asian Development Bank, Islamic Development Bank and Afghan Support Group of bilateral donors will serve as vice-chairs.

The World Bank's Response to the Events of September 11

The World Bank's response, which was designed in concert with the IMF and the regional development banks, included:

- increased lending and technical assistance in support of developing country efforts to combat money laundering and the financing of terrorism;
- increasing support for low-income countries, where warranted, through:
 - increased technical assistance and policy advice;
 - increased emergency and adjustment lending;
 - more rapid loan disbursements and short-term expansion of concessional flows in the form of either project or adjustment lending;
 - more focused poverty, economic and financial analysis at the country level by Bank staff; and
 - in exceptional cases, additional assistance at the completion point for HIPC countries; and
- closer co-operation with the UN, regional development banks and bilateral agencies in supporting reconstruction in Afghanistan and promoting regional stability in South and Central Asia.

Stronger Focus on Country Ownership

The Bank continues to assimilate into its operations the principles of country ownership that underpin the Comprehensive Development Framework (CDF).⁶ Under the broad CDF approach, country-designed Poverty Reduction Strategy Papers (PRSPs)⁷ are emerging as the key drivers of development and poverty reduction policies within the poorest countries. PRSPs are very much a work in progress and, in this initial stage of design and implementation, many developing country governments have relied on extensive World Bank support. In late 2001 and early 2002 the World Bank and IMF undertook a comprehensive review of the PRSP process. The results of this review are to be presented at the April 2002 meetings of the International Monetary and Financial Committee and Development Committee (see the "Joint Issues" section for details).

⁶ The CDF, which was launched as a concept by Bank President James Wolfensohn at a meeting of heads of multilateral development banks in January 1999, aims to better balance the social, environmental and governance aspects of development with financial and structural considerations. Under the CDF, the Bank and other development players will take a longer-term view of development and work in closer partnership with developing countries, civil society and the private sector in supporting country-led development programs.

⁷ PRSPs were originally conceived in 1999 as a comprehensive policy mechanism to link HIPC debt relief more closely with poverty reduction initiatives. They are rapidly evolving into the primary statement of the development strategy of the world's poorest countries.

In drafting PRSPs, developing country governments are working towards the types of broadly based consultative processes and development planning that underpin the CDF. In the discussions of the policy framework for the 13th replenishment of IDA, donors and representatives of borrowers agreed that IDA programming should reinforce the national development priorities identified in individual PRSPs.

The main challenges of the CDF and PRSP approach are: enhancing the institutional capacity of developing country governments to both plan and implement comprehensive poverty reduction strategies; ensuring governments are willing and able to sustain, over the medium and longer term, commitments to good governance and the principles of the CDF; ensuring an appropriate balance between CDF/PRSP consultative processes and the legitimate mandate of elected officials in recipient countries to set strategic priorities and make decisions; strengthening expenditure management and audit systems as essential conditions for government accountability; integrating the poverty reduction strategies into national budgetary processes; and aligning and harmonizing donors' programming and procedures with these strategies.

Adjustment Lending

One of the consequences of the shift in Bank operations to support country-owned development and poverty reduction strategies has been a high level of adjustment lending in overall Bank financing. The share of adjustment lending in overall Bank lending remains higher than the 25-per-cent notional level established by the Executive Board. Adjustment operations accounted for 38 per cent of overall World Bank lending in FY 2001, compared to 41 per cent in FY 2000, but down significantly from the 63 per cent registered at the height of the Bank's response to the emerging market financial crisis in FY 1999 (when the mechanism was used to provide social and financial sector support to crisis countries). Adjustment lending is used to support sector-wide reforms and restructuring in a number of areas. In FY 2001 most of the Bank's adjustment operations were provided in the form of Programmatic Structural Adjustment Loans, which are designed to support social and structural reforms implemented by developing country governments that involve continual, incremental policy changes and institution building. In sectoral terms, most of the Bank's adjustment lending supports public sector management, financial sector reforms and improved governance.

The Operations Evaluation Department (OED)⁸ judged that the adjustment lending outcomes strengthened during the 1990s, and in its annual report for FY 2001 concluded that the adjustment lending outcomes remain strong. OED attributes this improvement to the incorporation of lessons from early

⁸ OED is an independent unit within the Bank that assesses the development impact of the Bank's operations. OED reports directly to the Executive Board.

Bank experiences, including increased attention to borrower ownership, fewer loan conditions, and increased use of single-tranche operations that disburse on the basis of policy actions taken rather than policy commitments. OED also attributes the improvement to the increased focus in Bank operations on countries that are committed to and implementing good policies. OED is working with Bank management to improve the framework for monitoring adjustment lending by shifting focus from compliance with loan conditionality and intermediate outcomes to an assessment of final outcomes and impacts.

Late in FY 2001 the Executive Board approved the introduction of a new type of adjustment operation – the Poverty Reduction Support Credit (PRSC) – that provides budgetary financing in support of the implementation of PRSPs. PRSCs will be used in cases where clients have transparent budgetary and fiduciary processes and strong PRSPs in place. Since their introduction in the spring of 2001, PRSCs have been approved for Burkina Faso, Uganda and Vietnam.

Assessing Poverty

To ensure that poverty reduction remains at the heart of the Bank's operations, the Poverty Reduction and Economic Management Network (PREM) was established in 1997. PREM advises Bank country teams on the poverty reduction impacts of emerging policies, programs and individual projects. PREM's country-specific poverty assessments continue to provide valuable support for the Bank's poverty reduction efforts. Given a stronger emphasis on strengthening the rule of law, PREM is also developing institutional and governance assessments to be incorporated into Country Assistance Strategies (CASs). In FY 2001 the Bank completed four country poverty assessments, including an assessment of rural poverty in China, bringing the number of assessments and updates conducted since 1993 to 108. These assessments cover most of the world's poor.

At the same time, the quality of poverty data is uneven, and the Bank continues to work to improve the consistency of these assessments. More work will be done within the context of the regular CAS retrospective exercise to introduce a better time series on the poverty focus on individual CASs. This work will replace, in part, poverty monitoring that had been conducted within IDA's Program of Targeted Interventions (PTI). The PTI was discontinued in June 2001; it has been criticized by OED for not being a good indicator of the poverty focus of the Bank's work.

Africa: A Special Priority

The Bank and its shareholders recognize that the development challenges for African countries are especially daunting and that without extraordinary internal and external efforts, countries on the continent will not be able to reach the Millennium Development Goals. The heads of the IMF and the World Bank therefore committed at the 2000 Annual Meetings to put Africa at the centre of their institutions' activities. As a follow-up, the heads of the two institutions undertook their first joint visit to the region in February 2001,

where they met with leaders of 22 African countries to discuss key development issues. These meetings confirmed African leaders' commitment to far-reaching changes to achieve the levels of economic growth and poverty reduction needed to meet the Millennium Development Goals.

Soon after this visit 53 African Heads of State underscored their commitment to reform and ownership of the development process by adopting what became known as the New Partnership for Africa's Development (NEPAD) at the 2001 Summit of the Organization of African Unity. NEPAD is a comprehensive African-led program of action to end the continent's economic marginalization. G-8 Leaders discussed this initiative in Genoa in July 2001 and committed to focus the 2002 Kananaskis Summit on support for African development.

Millennium Development Goals

At the Millennium Summit in September 2000, world leaders endorsed specific, monitorable development goals. The 10 Millennium Development Goals were published in the September 6, 2001, Report of the UN Secretary General on the road map towards implementing the UN Millennium Declaration. The 10 goals are:

- to halve, between 1990 and 2015, the proportion of people living on less than one US dollar a day;
- to halve, between 1990 and 2015, the proportion of people suffering from hunger;
- to ensure that, by 2015, all children can complete primary schooling;
- to eliminate gender disparity in primary and secondary education, preferably by 2005, and at all education levels no later than 2015;
- to reduce by two-thirds, between 1990 and 2015, the mortality rate for children under 5 years old;
- to reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio;
- to have halted and begun to reverse by 2015 the spread of HIV/AIDS;
- to have halted and begun to reverse by 2015 the incidence of malaria and other major diseases;
- to integrate the principles of sustainable development into country policies and programs and to reverse the loss of environmental resources; and
- to halve by 2015 the proportion of people without sustainable access to safe drinking water.

The World Bank's Response to the HIV/AIDS Pandemic

HIV/AIDS is no longer just a public health issue; it is a development crisis. The high infection rates in developing countries are killing or incapacitating many of the most productive individuals and threaten economic and social stability. In the hardest-hit countries, most of which are in Sub-Saharan Africa, HIV/AIDS threatens to reverse the development gains achieved over the last 30 years.

Most of the Bank's HIV/AIDS programming is delivered through IDA, which has mainstreamed HIV/AIDS into its work. In FY 2001 IDA committed more resources to HIV/AIDS projects than it had in all previous years combined. Since September 2000 IDA's Multi-Country HIV/AIDS Program (MAP) for Africa has made US\$500 million available to governments to combat HIV/AIDS. While IDA initially expected it would take three years to commit the MAP funding, high demand led to the commitment of virtually all of the MAP facility within 15 months. Another 15 projects are expected to be funded through a second US\$500-million MAP loan (MAP 2), which was approved in February 2002. In 2001 the Executive Board also approved the first phase of a US\$155-million Multi-Country HIV/AIDS Prevention and Control Project for the Caribbean, of which over US\$40 million was earmarked for Barbados and the Dominican Republic. There are more than 390,000 people living with HIV/AIDS in the Caribbean region (making it the region with the highest prevalence rate in the world after Sub-Saharan Africa). Finally, IDA continues to support other freestanding HIV/AIDS projects and to integrate HIV/AIDS components into operations in all sectors.

The Bank is also involved in the Global Fund to Fight AIDS, Tuberculosis, and Malaria that was launched at the G-8 Summit in Genoa. The Fund has now received US\$2 billion in pledges from G-7 and other donor countries, corporations, non-profit organizations and private individuals. The Fund became operational in late January 2002, and its first projects are expected to be launched in the spring of 2002. The World Bank will be the Fund's Trustee.

OED Review of IDA10-12

Lessons from IDA operations are especially important in improving the effectiveness of the Bank's poverty reduction efforts. In 1998 IDA donors asked OED to review the evaluation of IDA's performance in implementing the undertakings of the 10th, 11th and 12th replenishment agreements (the FY 1994-2000 period). IDA donors received the nine-volume study in the spring of 2001, in time for their discussions of the 13th replenishment.

OED concluded that IDA's compliance with the long list of replenishment undertakings was satisfactory, though uneven across sectors. IDA has increased the poverty focus of its operations, and the quality of lending and non-lending services has improved. IDA has also made a substantial contribution to poverty data collection and analysis. OED noted that IDA's

actions to increase social sector lending were highly satisfactory over the period reviewed. Social sector lending has increased from 20 per cent of total IDA investment lending in the late 1980s to a sustained level of 40 per cent since 1995.

OED also judged that in 2000 IDA had improved its country focus significantly and paid greater attention to institutional development and the public sector than it did in 1994. IDA has also increased its responsiveness to borrowers. OED stressed, however, that more work needs to be done to strengthen IDA's analytic capability and develop adequate results-based monitoring. Finally, a strong message from the review is that donors need to establish clearer goals for IDA.

The OED review can be accessed on the World Bank's Web site at <http://www.worldbank.org/ida/oed/oeddocs.html>.

IDA13 Replenishment Discussions – Enhancing Support for Country Ownership

In February 2001 representatives (IDA Deputies) of 40 donor governments began negotiations on the scale of the 13th replenishment as well as on the policy framework that will underpin IDA operations for the replenishment period (July 2002 to June 2005). Roughly 60 per cent of the funding for IDA 13 will be provided by donors. Canada expects to maintain its IDA 12 donor share in IDA 13. While negotiations were initially expected to have been completed in December 2001, lack of consensus among donors on the degree to which IDA should be providing grant financing has led to protracted negotiations. At the time of printing, agreement among donors on the 13th replenishment had not been achieved.

During the negotiations on the 13th replenishment, there was agreement among IDA Deputies that IDA should support country-owned poverty reduction strategies. IDA Deputies stressed that IDA needs to focus on results and recommended that the Millennium Development Goals provide a basic framework for results measurement. They also called on IDA to ensure that Bank CASs include specific outcome-based benchmarks for assessing the effectiveness of IDA assistance. Within the framework of support for PRSPs, Deputies have stressed the need for IDA to invest in people, especially through support for expanding education, health and basic infrastructure, and to provide support for strengthening public sector management. They reiterated for IDA13 the objective, established in IDA12, of having Africa account for half of IDA allocations.

IDA Deputies also urged IDA to be more selective in its operations and to work closely with other development partners, on the basis of comparative advantage. They reaffirmed the importance of IDA's performance-based allocation mechanism, and especially the high weight it assigns governance. They also requested that management assess the impact of this allocation mechanism on poverty levels. At the same time, they recommended that IDA show greater flexibility with respect to allocations to post-conflict countries where there has been little opportunity to establish policy track records.

IDA – Focused on the World's Poorest

Established in 1960, IDA is the single most important source of external development support for the world's poorest countries. IDA provides US\$6 billion to US\$7 billion annually in highly concessional long-term financing to 79 countries, home to 2.4 billion people, of which 80 per cent live on less than US\$2 a day and 40 per cent survive on less than US\$1 a day.

Eligibility for IDA concessional lending is based primarily on an assessment of an individual country's per capita income. In FY 2001 the operational cut-off for IDA eligibility was US\$884 per capita. A number of small island states with per capita incomes above this threshold are also eligible for IDA concessional financing given their limited capacity and high vulnerability to external shocks.

IDA helps provide access to improved social services such as schools, hospitals and clinics, and clean water and sanitation services. IDA also supports investments aimed at improving productivity and creating employment.

To ensure that its resources are used effectively, IDA allocations to clients are governed by performance criteria that are heavily focused on good governance.

Canada's Financial Participation in the IBRD and IDA

IBRD

Canada is a fully paid shareholder of the IBRD, with a capital share of 2.79 per cent. A relatively small proportion of this capital is required to be "paid-in"—about 6 per cent overall, but just 3 per cent in the last capital subscription. The remainder is "callable" in the unlikely event that the IBRD needs it from member countries. Callable capital represents a contingent liability for shareholders. The IBRD leverages paid-in capital to raise financing in international capital markets for its lending program. The IBRD's capital adequacy is regularly reviewed and the institution's capital is replenished through occasional general capital increases. The last general capital increase was in 1988.

Canada's Total IBRD Subscriptions and Contributions Committed

Canada's Voting Power in the IBRD

In millions of US dollars	Number of votes	Per cent of total
5,403.8	45,045	2.79
Of which paid-in 334.9		
Of which callable 5,068.9		

IDA

As IDA concessional financing does not generate a financial return, its operations are underwritten entirely from donor contributions, loan fees and repayments of principal on its outstanding loans, as well as allocations from IBRD net income. IDA's financial resources are replenished in three-year cycles. In November 1998 donors agreed to an overall funding level of US\$20.5 billion for the 12th replenishment of IDA. Donors agreed to contribute US\$11.7 billion of this amount. Canada's share of donor contributions was 3.75 per cent. To meet these obligations, Canada issued demand notes in 1999, 2000 and 2001. Each of these notes is encashed over a six-year period. The amount and terms of Canada's contribution to the 13th replenishment will be determined once donors agree to the overall financing framework.

Canada's Contribution to IDA12 (July 1999-June 2002)

Canada's IDA12 Donor Share

Canada's IDA12 Voting Power

In millions of Canadian dollars	Per cent of total	Number of votes	Per cent of total
607	3.75	81,592	3.39

Canada's Priorities at the World Bank

While positions that Canada articulates on World Bank issues continue to evolve, they are based heavily on our international development co-operation and foreign policies and our strong interest in maintaining the financial integrity of the World Bank and its instruments.

Poverty Reduction and Human Development

Canada has long been a key player in international efforts to assist the poorest and strongly supports poverty reduction as the overarching objective of the World Bank. As such, Canada endorses the Comprehensive Development Framework, which promotes the basic principles of country ownership, partnerships, a focus on results and a long-term vision for development, and the PRSP process, under which developing country governments develop and implement broad-based poverty reduction strategies in partnership with the donor community. The Bank has increasingly recognized that poverty reduction cannot be addressed in isolation. Private sector development, good governance, monitoring of non-productive expenditures (especially military), external debt and environmentally sustainable policies are just a few of the factors that need to be considered in designing strategies to help improve the living standards of the poor in member countries. In the case of small states, the Bank has to take into account additional factors of economic and physical vulnerability and limited capacity.

Canada strongly supports the Bank's efforts to increase the prominence of social sector issues in macroeconomic stabilization programs. Good macroeconomic policy is key to boosting growth and reducing poverty. At the same time, adequate attention to social issues must be an essential part of macroeconomic stabilization and sustainable development goals.

Canada's Voting Record

World Bank Executive Board decisions are usually taken on a consensus basis, without resorting to a formal vote. On occasion, however, individual Executive Directors have been unable to join the Board consensus for various reasons. Over the April-December 2001 period, the Canadian Executive Director did not join the Board consensus on 33 occasions.

- Canada registered its abstention in the cases of 22 World Bank and IFC loans and investments in India and Pakistan as, in Canada's view, these operations were inconsistent with the internationally agreed sanctions applied against the two countries following their testing of nuclear weapons devices in May 1998. Recognizing the economic impact of the events in Afghanistan on both Pakistan and India, Canada modified its position in the fall of 2001 and has since indicated its support for all categories of multilateral development bank lending to these two countries.
- Canada opposed 7 Bank Group operations in Indonesia, given strong concerns about the weakness of corporate governance and adherence to the rule of law.
- Canada opposed an IFC operation in support of a steel project with the Grupo Peixoto de Castro in May 2001 given concern about overcapacity in the global steel market.
- In June 2001 Canada opposed management's recommendations regarding increases in World Bank staff compensation. In December 2001 Canada opposed management's proposal to increase, by one professional staff member, the number of positions in Executive Directors' offices. (Under this new policy, multi-country constituencies and single-country offices can have up to 14 positions and 9 positions, respectively).
- In addition, in July 2001 the Minister of Finance, as Canada's Governor at the World Bank, voted against an increase in the remuneration of World Bank Executive Directors and their Alternates.

Education

Canada considers education to be a critical factor in development. The Minister for International Cooperation represented Canada at the Education for All (EFA) world conference in Dakar, Senegal, in April 2000, where bilateral and multilateral donors committed to assisting developing countries undertaking education reform and with realistic plans to meet the EFA goals.⁹ The Minister of Finance reinforced Canada's support for EFA in his statements to the April and November 2001 meetings of the World Bank/IMF Development Committee.

⁹ At Dakar, Senegal, in April 2000, education and development ministers from across the globe established the six education goals: gender equality in primary and secondary schooling by 2005 and gender equality in all education by 2015; universal primary education of good quality by 2015; a 50-per-cent improvement in adult literacy by 2015; an expansion of early childhood care and education; equitable access by youth and young adults to appropriate learning and life skills programs; and improved education quality.

The Bank increased its lending programs for education in FY 2001 to US\$1.1 billion – a 50-per-cent increase from the FY 2000 level. The Bank also provides important non-lending support for the education sector. In FY 2001 Bank staff undertook analysis and gave policy advice on education issues to developing countries, with a particular focus on girls' education. Under a Bank-funded project in Guinea, for example, girls' enrolment increased to 49 per cent in 2001 from 44 per cent one year earlier.

Bank staff are working closely with the G-8 Education Task Force¹⁰ to assess the financial requirements for achieving the 2005 and 2015 EFA goals. The Bank's role in supporting international education efforts will be discussed at the April 2002 meeting of the Development Committee.

Development Effectiveness

Ensuring the effectiveness of the Bank's operations has long been a key Canadian objective. This entails more than just reducing costs and saving money. Effectiveness requires selectivity, clear priority setting and efficient service delivery. The Bank needs to operate in those areas where its assistance can be productively used and where it has a clear comparative advantage. The Bank is exercising greater selectivity by focusing on reforming states and good performers. In the case of IDA credits, allocations are based on performance criteria. In order to monitor country performances in a meaningful manner, the Bank is focusing on incorporating poverty-related outcome indicators to measure real results, including such indicators as child malnutrition and child and maternal mortality.

The Bank continues to strengthen its efforts to improve development effectiveness through a renewed emphasis on the quality of its project portfolio. More vigilance is now exercised at the project preparation and supervision stages, and this has led to an improvement in the number of projects that are meeting their development objectives. In the first half of FY 2001 OED assessed that 82 per cent of projects had satisfactory ratings in terms of meeting their objectives. Recent OED evaluations point to a particular improvement in the performance of projects in Africa, following a determined effort by Bank management to improve project management.

Co-ordination and harmonization of programs is another critical element of effective development assistance. Canada has consistently urged the Bank to forge stronger partnerships with other multilateral organizations – including the UN – and bilateral donors on the basis of comparative advantage.

Gender Issues

Canada actively promotes gender issues as a priority for World Bank operations. World Bank lending in almost all sectors includes activities that specifically benefit women and girls. Following a review of its gender strategy, management committed to integrate gender issues into Bank CASs and to work

¹⁰A task force of senior officials established by G-8 leaders at the 2001 Genoa Summit to review means of improving international support for the Millennium Development Goals for education.

with developing countries and external partners to identify appropriate strategies to promote gender equality. In FY 2001 the Bank published a major policy research report, *Engendering Development – Through Gender Equality in Rights, Resources, and Voice*. The report, which will inform the Bank's gender strategy, concluded that there is strong empirical evidence that gender inequalities tend to slow development and that gender equality helps to lower infant mortality, improve nutrition, and lower fertility and HIV/AIDS transmission rates. CIDA is currently working closely with the Bank to improve the Bank's capacity in gender equity. To expand exchange of knowledge with its development partners, the Bank provides a number of statistical indicators on gender on its Web site.

Private Sector Development

The private sector plays an important role in addressing virtually all development challenges, from protecting the environment to assisting in privatization in transition economies. Canada has maintained that the Bank Group's fundamental priority for private sector development is to create an enabling environment for investment and sound regulatory frameworks for the private sector to develop and flourish in a sustainable fashion. Canada has encouraged the increasingly co-ordinated approach to private sector development that has grown within the Bank Group over the past three years. In June 2001 the Bank Group prepared a paper entitled *Private Sector Development Issues and Options* for consultation with government, the private sector, NGOs and multilateral agencies. Based on the consultative process, the paper evolved into the Bank Group's draft *Private Sector Development Strategy*, which was informally discussed by Executive Directors in November 2001. The strategy relates to two broad themes: extending the reach of markets and improving the delivery of basic services. The key elements of the strategy include: fostering a sound investment climate; providing direct support for private firms; supporting private participation in infrastructure; increasing the role of the private sector in assisting public sector efforts to achieve universal and affordable access to social services; and creating a new approach to more effectively target subsidies to the poor to improve service delivery.

Altogether, in FY 2001 the IBRD and IDA provided over US\$550 million in lending in direct support of private sector development. An important example of the private sector's role in development is the growing impact of microcredit operations (relatively small loans made to the poor by grassroots organizations such as the Grameen Bank in Bangladesh). With a small investment, these organizations have been successful in improving the living conditions of the poor, particularly women, in developing countries. Evidence from these operations is compelling; it shows that the poor can be very good entrepreneurs as well as very good credit risks.

The Consultative Group to Assist the Poorest (CGAP), which includes the Bank, Canada, 25 other multilateral and bilateral donors and 2 private organizations, was established in 1995 to support the development and expansion of sustainable institutions that provide microfinancing services to the poor. In FY 2001 CGAP considerably expanded the scope of its training hubs in Africa, Asia and Europe.

Microcredit: The Consultative Group to Assist the Poorest

Microcredit is an important development instrument in the world's poorest countries. In FY 2001 CGAP committed US\$6.7 million to expand microcredit operations in the world's poorest countries. Canada strongly supports CGAP efforts to expand microcredit.

Through its work, CGAP seeks to strengthen the ability of microfinance organizations with a proven track record and to provide assistance to the poor. The Bank contributed US\$30 million to the first phase of the facility and provided a further US\$7 million for the first year of the second phase (which runs until June 2003). CIDA contributed C\$1.5 million to the first phase and C\$1 million to the second.

For CGAP's second phase, donors have adopted the following strategies:

- support microfinance institutional development through the creation of tools and the delivery of capacity-building activities;
- support changes in the practices of CGAP members, especially as they relate to the management of microfinance portfolios;
- increase understanding of the impact of microfinancing on poverty reduction;
- improve the legal and regulatory framework for microfinance; and
- facilitate the commercialization of the microfinance sector.

Good Governance and Anti-Corruption

Canada is an advocate of strong Bank support for improved public and corporate sector governance. Over the last decade governance has been mainstreamed into the Bank's adjustment and investment lending, and more recently in its country analytical work. In November 2000 the Bank published its governance strategy, *Reforming Public Institutions and Strengthening Governance*, which stressed the need for the Bank to strengthen its tools for evaluating the quality of a country's institutions and for assessing a country's readiness to initiate specific governance reforms. The Bank's Public Expenditure Reviews (PERs) and Financial Accountability Assessments (FAAs) in individual countries will focus increasingly on institutions responsible for budget decision making and implementation, while the more recently introduced Institutional and Governance Reviews (IGRs) will facilitate institutional analysis in other areas of public sector reform. In FY 2001 the Bank conducted 12 PERs, 13 FAAs and 7 IGRs.

The Bank also incorporates anti-corruption measures into its own procedures. Since 1997 anti-corruption activities have been integral components of the Bank's public sector management portfolio, which represented 12 per cent of the Bank's loan commitments in FY 2001. The Bank has helped put in place more than 600 anti-corruption programs in nearly 100 borrowing countries and has mainstreamed anti-corruption issues into its CASs. The Bank has amended its procurement guidelines to strengthen the procedures for disqualifying bidders, temporarily or permanently, from future Bank-financed projects if it finds evidence of fraud or corruption. Since the inception of its anti-corruption policy, the Bank has debarred 72 firms or individuals from receiving Bank contracts because of their involvement in corruption or the misuse of Bank funds. Nineteen companies or individuals were debarred in FY 2001. In April 2001 the Bank appointed Maarten de Jong as its first Director for Institutional Integrity. Mr. de Jong provides advice to senior management on business ethics and the Bank's anti-corruption investigative strategies and policies.

The Bank's governance work is not limited to the public sector. In March 2001 the Bank joined with the Organisation for Economic Co-operation and Development to establish the Global Corporate Governance Forum. This institution aims to improve the investment climate in developing countries by addressing specific weaknesses in corporate governance.

Canada has been particularly outspoken and concerned about unproductive expenditures, particularly excessive military expenditures. It has spoken strongly at the Bank to highlight the need to be tough on those countries that are receiving international assistance and in which defence expenditures crowd out social sector spending. The Bank is requesting better information from borrowers on military-related aggregate expenditures to aid in its PERs.

In its efforts to promote better governance practices, the World Bank Institute has established close working relations with the Parliamentary Centre in Canada and with international organizations.

The Toronto Centre

Recognizing the need to strengthen financial sector regulation and supervision in crisis economies, in 1997 the Government of Canada and the World Bank established the Toronto International Leadership Centre for Financial Sector Supervision. The Toronto Centre provides experience-based training for senior financial supervisors and regulators in emerging markets, putting them in a stronger position to fulfill their responsibilities and thereby reducing the severity and frequency of financial crises. It focuses on the leadership dimension of the supervisory function, offering pragmatic programs based on the premise that experience is the best teacher. The Toronto Centre has provided training to nearly 400 senior public servants from more than 100 countries. In 2000 it began joint programs with the Financial Stability Institute in Basle, Switzerland, and initiated regionally focused programs in regional settings.

The Bank has provided US\$1.25 million in funding to the Toronto Centre over the past three years. The IMF contributed US\$500,000 in 2000 and US\$300,000 in 2001. The Bank for International Settlements announced a contribution of US\$500,000 in 2000 and provided US\$350,000 of this amount in 2001. Canadian funding for the Toronto Centre has been provided by CIDA and several Canadian banks (Canadian Imperial Bank of Commerce, The Bank of Nova Scotia, Royal Bank of Canada and TD Bank Financial Group).

The Toronto Centre can be reached through its Web site at <http://www.torontocentre.org/>.

Environmentally Sustainable Development

The Canadian government, alongside Canadian NGOs, has long been a vocal advocate of the need for the Bank to better integrate environmental considerations into its operations. The Bank has estimated the economic costs of environmental degradation in many developing countries to be the equivalent of 4 to 8 per cent of GDP. In July 2001, following extensive consultations between the Bank, civil society and governments, Executive Directors approved a revised Bank environment strategy. The revised strategy aims to improve the Bank's environmental safeguard system and to mainstream environmental policies and issues into the loan and policy dialogue work of the Bank. To ensure compliance with its environmental safeguard policies, in FY 2001 the Bank appointed regional safeguard co-ordinators, established a safeguards help desk for staff and upgraded its internal safeguard training. The Bank also works closely with clients to help them introduce and implement their own environmental safeguard systems to help them manage their resources more sustainably.

While the Bank is mainstreaming environmental considerations into the broad range of its operations, the number of direct environmental investments varies from year to year. In FY 2001 the share of direct environmental lending in overall Bank lending operations decreased to 4.5 per cent from 6 per cent in FY 2000. At the end of FY 2001 there were 95 active stand-alone environmental projects (7 of which were approved during the year) worth US\$5.1 billion in addition to sector projects with strong environmental objectives that totalled US\$11 billion.

The Bank has been particularly active in the area of climate change. As an implementing agency of the Montreal Protocol's Multilateral Fund, the Bank supports projects in 20 countries and has committed US\$445 million in financing since 1991 for some 558 projects to assist enterprises in developing countries convert to ozone-friendly technologies.

In FY 2000 the Bank launched the US\$145-million Prototype Carbon Fund (PCF), which finances projects that produce high-quality greenhouse gas emission reductions that could be registered with the United Nations Framework Convention on Climate Change for the purposes of the Kyoto Protocol. PCF resources are provided by both the public and private sectors (including a contribution from CIDA). In FY 2001 the PCF funded a solid waste management project in Liepaja, Latvia.

Together with the United Nations Development Programme and United Nations Environment Programme, the Bank is an implementing agency of the Global Environment Facility (GEF). Through the GEF, the Bank supports projects in four key areas: climate change, biodiversity conservation, phase-out of ozone-depleting substances and protection of international waters.

Trade and Development

Canada recognizes that the capacity of small nations, emerging economies and other developing countries to participate effectively in the global trading system is an important component of a comprehensive approach to growth and poverty reduction. Canada has stressed the need to incorporate trade sector capacity building in Bank CASs and nationally developed PRSPs.

In April 2001 the Development Committee reviewed the Bank's strategy paper *Leveraging Trade for Development*, which focused on the institution's role in assisting developing countries to better integrate into the global trading system. The Bank is focusing on three broad objectives:

- helping developing countries use the multilateral system to expand trade by concentrating on priority areas such as market access, trade in services, and intellectual property and product standards, and preparing countries for World Trade Organization accession;
- helping developing countries use regional arrangements more efficiently to expand trade and regional integration; and
- working with governments to design and implement reforms that will expand trade and transmit benefits to low-income groups.

In addition, the Bank is working with five other institutions in the context of the Integrated Framework for Trade-Related Technical Assistance (IF).¹¹ The IF has evolved into the primary vehicle for mainstreaming trade into country development strategies in a co-ordinated fashion, with the World Bank playing the role of lead institution. The Bank's intellectual and financial commitment to this project is critical to the success of the IF in both the short and long term. Canada is a strong supporter of the IF and, in addition to providing policy advice, announced a C\$1-million contribution to the IF Trust Fund in May 2001 (contributions from various contributors totalled C\$9 million by the end of 2001). This Trust Fund supports trade-related diagnostic studies in three pilot countries (Cambodia, Mauritania and Madagascar) in collaboration with the IF agencies.

Transparency and Accountability

Recognizing that transparency and accountability are fundamental to ensuring the longer-term sustainability of the Bank Group's operations and that the "demonstration effect" of the Bank's own policies is important for developing country governments, Canada has been a major proponent of increased openness at the Bank. Canada and other donors have pushed the Bank and borrowing countries to find ways to improve consultations with local people – civil society organizations (CSOs) and NGOs – in borrowing countries, not only in the design and implementation of projects but also in the preparation of key policy documents, such as CASs. The Bank has responded to concerns from shareholders by making public a growing

¹¹ The other participants in the IF are the IMF, International Trade Centre, United Nations Conference on Trade and Development, United Nations Development Programme and World Trade Organization.

number of documents. In August 2001, following extensive Bank consultations with governments, civil society, the private sector and the media, Executive Directors approved revisions to the Bank's disclosure policy and these revisions became effective in January 2002.

Under its revised policy, the Bank now discloses to the public:

- documentation outlining key actions supported by a Poverty Reduction Support Credit following loan approval by Executive Directors;
- program documents for other adjustment loans, with the consent of the borrower, following Executive Board approval of the operation;
- a broad range of Operations Evaluation Department reports after they have been released to Executive Directors;
- environmental safeguard assessments for all projects before project appraisal begins;
- concluding remarks of the Executive Board chair on CASs, Transitional Support Strategies and CAS Progress Reports that are themselves disclosed;
- concluding remarks on policy and strategy papers on a case-by-case basis; and
- archived documents after 20 years (or 5 years for types of documents now routinely disclosed).

Substantial headway was made during the 13th IDA replenishment negotiations in expanding transparency and policy dialogue with borrowers and civil society. For the first time six representatives of IDA borrowers participated in the formal discussion of the IDA policy framework. IDA donors also met with representatives of African borrowers and civil society when they convened at the headquarters of the United Nations Economic Commission for Africa in Addis Ababa, Ethiopia, in June 2001. At their meeting in October 2001 IDA donors met with a number of NGOs from borrowing countries to discuss IDA priorities and the PRSP process. IDA donors also decided in 2001 to release all of their background policy discussion papers to the public in draft form and took the unprecedented step of seeking public comment on their draft report, which defines the IDA13 policy framework.

Transparency also requires better consultation with those affected by projects that the Bank supports. Under President James Wolfensohn, the Bank was the first multilateral organization to establish an independent panel to consider outside complaints. Any group that may be affected by a Bank-supported project has the right to request that the panel investigate whether the Bank has abided by its policies and procedures. Canada has been one of the major supporters of the work of the Inspection Panel. Since its inception in 1994 the panel has received 25 formal requests for inspections. It received 4 requests for inspections during FY 2001. On January 1, 2002, chairmanship of this body passed from Canadian Jim MacNeill to Ghanaian Edward S. Ayensu.

The Bank engages with civil society in a broad range of activities, including providing input for poverty assessments, national environmental action plans and other key Bank analytical tools. President Wolfensohn has been a major catalyst behind the Bank's outreach program with CSOs and NGOs; particular emphasis has been placed on expanding partnerships with outside groups as more Bank operations are framed in the context of PRSPs. PRSPs embody participatory approaches at the macro level. CSO/NGO representatives from developing countries are now consulted regularly in the preparation of Bank CASs. Although the intensity of these consultations still varies from country to country, civil society involvement in CAS preparation rose from 20 per cent of CASs in FY 1998 to 80 per cent in FY 2000 and FY 2001. Starting in FY 2000 detailed information on the participation of CSOs/NGOs has been included in Bank project appraisal documents.

The NGO-World Bank Committee, a formal mechanism for policy dialogue established in 1982, has evolved into the World Bank-Civil Society Thematic Forum, which will convene a broader range of CSOs, including representatives from NGOs, trade unions, community organizations, small farmers' groups, religious institutions and women's organizations. An annual report is published on the Bank's relations with civil society, and the Bank maintains a Web site (<http://wbln0018.worldbank.org/essd/essd.nsf/NGOs/home>).

Within Canada NGOs have participated in a regular series of government meetings and conferences on such issues as multilateral debt, the environment, IDA and Africa. The Canadian government has benefited greatly from the expertise and advice offered by Canadian NGOs on a broad range of development issues. Through this collaborative process, the views of Canadian NGOs have helped shape Canada's position in Bank project and policy discussions.

The World Bank Business Plan and Administrative Budget

In FY 2001 Bank management undertook an assessment of the Strategic Compact, an administrative reform implemented over three years starting in April 1997 to make the Bank more poverty-focused and responsive to client needs. The review concluded that client responsiveness has improved considerably as has the quality of the Bank's operations. Substantial decentralization of Bank operations to the field over the last four years has reinforced this trend. While management was able to return the Bank's administrative budget to its FY 1997 level in real terms by FY 2001 (US\$1,442.2 million), efficiency gains under the Compact proved difficult, as management has faced increased operational pressures over the past four years.

Drawing on the experience of the Strategic Compact as well as on the recognition that its corporate planning needs to be more closely aligned with efforts to achieve the Millennium Development Goals, in the spring of 2001 the Bank moved to a three-year budgetary and corporate-planning cycle. Recognizing the stress that returning to FY 1997 administrative budget levels

has imposed on the Bank, the Executive Board approved a 10-per-cent nominal increase in the Bank's administrative budget in FY 2002 over FY 2001 to US\$1,589.7 million. This increase, however, was considered within the context of the three-year FY 2002-04 planning period, which will see much smaller increases in the final two years.

FY 2001 IBRD Financial Results

IBRD net income in FY 2001 was US\$1,489 million,¹² US\$502 million lower than in FY 2000. The decline was due mainly to increased loan loss provisioning in the face of both increased arrears and a deterioration in the credit quality of loans disbursed to some borrowers. In FY 2001 loans to two developing country borrowers totalling US\$921 million were placed in non-accrual status. However, agreement was reached in May 2001 with the government of the Federal Republic of Yugoslavia (FR Yugoslavia) to clear US\$1.9 billion in arrears of the former Socialist Federal Republic of Yugoslavia for which the FR Yugoslavia has accepted liability. On December 17, 2001, six consolidation loans were signed by the FR Yugoslavia to formalize this arrangement.

As a development institution, the IBRD does not maximize profit. Instead, it aims to earn a return on its assets that is sufficient to ensure its financial strength and sustain its development activities on an ongoing basis. The IBRD usually earns a net return on its assets of about 1 per cent per annum. In FY 2001, however, increased loan loss provisioning reduced the IBRD's net return on assets to less than 1 per cent. The IBRD's main financial risk rests with the credit quality of its disbursed loan portfolio. At the end of FY 2001 the IBRD's equity-to-loans ratio, which is a summary measure of the institution's risk-bearing capacity, was 21.42 compared to 21.23 in FY 2000, but down from 22.06 in FY 1997. These levels are considered sustainable.

In FY 2001 the IBRD raised US\$17.033 billion, before swaps, in medium- and long-term debt on international capital markets to fund its operations. The IBRD issued debt in nine currencies and in a range of maturities. The Bank follows very conservative borrowing and hedging policies.

Allocation of FY 2001 Net Income

IBRD net income supports development objectives. In July of each year Executive Directors recommend to Governors specific allocations from the previous year's net income. IBRD "allocable" net income, after reserves and interest waivers, was US\$931 million in FY 2001. Governors approved allocations from FY 2001 net income of US\$302 million to IDA and US\$100 million to the HIPC Trust Fund. The remainder of FY 2001 net income was transferred to the Bank's general reserve.

¹²The World Bank (IBRD) prepares its financial statements in accordance with generally accepted accounting principles and international accounting standards. The Bank's financial statements are reviewed by an external auditor. The IBRD's financial statements and IDA's special-purpose statements for FY 2001 were reviewed by Deloitte Touche Tohmatsu and are included in the World Bank's Annual Report for 2001.

How to Access Information at the World Bank

The World Bank's Public Information Centres, which became operational in early 1994 in Washington and in many of the Bank's regional offices, provide a wide range of Bank documents, including:

- project information documents;
- project appraisal documents (after approval by the Board of Executive Directors);
- country economic and sector work documents and sectoral policy papers;
- the annual report and the *World Development Report*;
- *Monthly Operational Summary* and *International Business Opportunities*;
- environmental data sheets, assessments, analyses and action plans;
- *World Debt Tables* and *Global Development Finance*; and
- Operations Evaluation Department précis.

These materials and a variety of World Bank and World Bank Institute special studies are available through the Bank's InfoShop, which is located at:

1776 G Street N.W., Washington, DC 20433, USA

Phone: (202) 458-5454

Fax: (202) 522-1500

E-mail address: pic@worldbank.org

Additional up-to-date information is also available on the Internet at
<http://www.worldbank.org/html/pic/PIC.html>.

Development Gateway

In 2001 the Bank established a "Development Gateway" Web site to allow those in the development field to access information, resources and tools, as well as to provide a forum for the exchange of knowledge and experience. A collaborative initiative by the Bank Group and civil society (including the private sector) is underway to build the Gateway. The Gateway has been initially funded by the Bank, but will be transferred to the Development Gateway Foundation, an independent non-profit organization dedicated to reducing poverty and helping to bridge the digital divide by promoting development-related information and communications technology initiatives.

The Development Gateway can be accessed at
<http://www.developmentgateway.org/>.

Managing Canada's Interests at the World Bank

Finance Minister Paul Martin, as Canada's Governor at the World Bank, is responsible for the management of Canada's interests at the Bank. Minister Martin exercises his influence through exchanges of views at the Development Committee and Annual Meetings of the Board of Governors of the Bank, and through discussions with the President of the Bank. For example, in 2001 in two Development Committee meetings, Governors addressed means of improving donor co-ordination, support for the education sector, leveraging trade for development, assisting developing countries cope with the impacts of September 11, 2001, and the Bank's role in the International Conference on Financing for Development. Within the Development Committee, Minister Martin represents the interests of Canada and all other members of the Canada/Ireland/Commonwealth Caribbean constituency at the Bank.

Because of the September 11, 2001, terrorist attack in Washington, the fall meeting of the Development Committee, originally planned for that city on October 1, was postponed to November 18 and took place in Ottawa. The Annual Meeting of the Bank's Board of Governors was rescheduled to December 4, 2001, and was held in Washington. Most Governors, including Minister Martin, were represented on an exceptional basis by their Executive Directors.

The Department of Finance consults closely with the Department of Foreign Affairs and International Trade and CIDA in formulating Canadian policies related to Bank issues. Len Good, the President of CIDA, is Canada's Alternate Governor for the World Bank.

Governors have delegated decision making for a wide variety of day-to-day operational, policy and administrative matters to the Bank's Executive Board. The Executive Board formally approves all loans, credits, projects and World Bank policies, discusses CASs and provides strategic advice to Bank management as appropriate. Of 24 Executive Directors on the Board, 12 are from developing and transition countries and 12 from developed countries. Terrie O'Leary, who was elected Executive Director in October 1998, represents Canada and 12 other countries (Ireland and 11 Caribbean countries) at the Executive Board. One of the important functions of the Executive Director in 2001 was her oversight of the Bank's staffing policy through her membership on the Board of Directors' Personnel Committee.

Canada's Office at the World Bank

In 2001 the Canadian Executive Director's office continued to support the activities of Canadian businesses seeking opportunities with the Bank. One of the key roles of the office is to provide advice and assistance to Canadian individuals and businesses on doing business with the Bank. The Executive Director's office helped introduce roughly 1,000 Canadian businesses to such opportunities through seminars and workshops held across the country and by organizing direct contacts in Washington. Beyond its formal work, the

office provides a valuable bridge between the Bank and Canadian constituents – individuals, NGOs, federal and provincial agencies, associations, the academic community and parliamentarians, among others.

In addition to the Canadian Executive Director's office, the Canadian Embassy in Washington has established an Office for Liaison With International Financial Institutions that can advise Canadians on how to participate in Bank-financed projects. The office can be reached at (202) 682-7719.

Another point of contact for Canadian businesses is the Bank's Business World Web page at <http://www.worldbank.org/business/>. Canadian firms, organizations and institutions that are interested in pursuing opportunities created by Bank-financed projects should consult the Bank's Web site on a regular basis.

Organization of the Office

The Executive Director is supported in her daily work by a Caribbean Alternate Executive Director, three senior advisors (two Canadian and one Irish), three advisors (two Canadian and one Caribbean) and three locally hired administrative staff. The office works closely with the Canadian government – not only with the Department of Finance, but also with CIDA and the Department of Foreign Affairs and International Trade. The Department of Finance co-ordinates Canada's policy advice and channels it to the Executive Director, and through her to World Bank management.

Structure of the Executive Director's Office:

Executive Director	Terrie O'Leary
Caribbean Alternate Executive Director	Sharon Weber
Canadian Senior Advisor	Grant Cameron
Canadian Senior Advisor	François Pagé
Irish Senior Advisor	Donal Cahalane
Canadian Advisor	Ian Wright
Canadian Advisor	Hieu Tom Bui
Caribbean Advisor	Barrington O'Neil Bryce
Executive Assistant	Deborah Wooldridge
Program Assistant	Monica Morris
Team Assistant	Danielle Pierre
Phone/fax	(202) 458-0082/(202) 477-4155
Address	MC-12-175, 1818 H St. N.W., Washington, DC 20433, USA toleary@worldbank.org dwooldridge@worldbank.org

Canadian Procurement at the World Bank

Canadian firms benefit from Canada's World Bank membership by accessing procurement opportunities under World Bank-financed loans. Canadian expertise in the power, environmental, engineering, human resources, health, education, telecommunications, financial and transportation sectors has led to procurement opportunities for Canadian firms for developing country projects around the globe. In FY 2001 Canadian companies provided US\$120 million in goods and services under Bank-funded projects. Consulting fees represented more than half of this amount. Canadian companies were most active in Bank-financed projects in the transportation sector, with Systec Instrument Canada, LEA International and Tecslut International providing goods and services. Canadian firms with environmental expertise, such as Lomex International, Cowater International, Groupe Progestic, Wardrop Engineering and others, were also very active in FY 2001. Tecslut International and Canam Pipe & Supply were also active in Bank-financed projects in the mining sector. KPMG Consultants, The Governance Network and Cowater International are involved in the implementation of a public sector modernization project in Jamaica. Gowlings Consulting Inc. was awarded a contract under a component of the Bank's Legal and Judicial Reform Project to work on institution building, training and enhancing the legislative framework pertaining to alternative dispute resolution. Canadian research centres have also benefited from Bank-financed contracts. The Canadian Centre of Disability Studies was awarded a US\$226,000 contract to conduct a study in eight countries on disability and development.

The outstanding Canadian success story for 2001 was Montréal-based Tecslut International. Tecslut won seven contracts in the mining, forestry, transportation and environment sectors, with the total volume of business generated by these contracts exceeding US\$11 million. Like many other Canadian companies, Tecslut's bids are often made in partnership with companies based in other countries. Thus, the actual number of Bank contracts that benefit Canadian suppliers and consultants is understated in the Bank's reporting on procurement.

Trust Fund Activities

Consultant trust funds, financed by CIDA and administered by the Bank, are a significant source of funds for identifying and preparing Bank projects, programs or analytical work focused on poverty reduction. These trust funds are intended to support the participation of Canadian consultants with limited prior involvement in activities funded by the Bank. In June 1995 CIDA concluded an agreement with the Bank that governs all of its trust fund arrangements with the Bank, World Bank Institute and Global Environment Facility. CIDA has established specific trust funds for persistent organic pollutants (C\$20 million), the Prototype Carbon Fund (US\$10 million), the Public-Private Infrastructure Advisory Facility (C\$500,000) and the Cities Alliance (C\$800,000). CIDA has established a separate C\$5-million trust fund with the World Bank Institute that enables the organization to engage

Canadian expertise in the preparation and delivery of its training programs in countries eligible for Canadian Official Development Assistance. Allocations are made annually to five or six World Bank Institute programs, based on their compatibility with Canadian development assistance priorities.

For further information on Canadian trust funds, contact Stéphane Charbonneau, Commercial Counsellor at the Canadian Embassy in Washington (phone [202] 682-7719; fax [202] 682-7789) and François Pagé, Senior Advisor at the Executive Director's office (phone [202] 458-0082; fax [202] 477-4155).

International Finance Corporation

The IFC, created in 1956, supplements the activities of the IBRD and IDA by providing financing on commercial terms for productive private sector enterprises that lack access to private capital markets. The institution is the largest multilateral source of loan and equity financing for the private sector in the developing world. Through its co-financing arrangements, it leverages over five dollars of finance for every dollar it provides. By investing alongside the IFC, as Canadian financial institutions have done since the mid-1990s through their participation in the IFC loan syndication program, investors gain valuable access to potential new customers, attain a high-yielding asset and, given the IFC's good relations with developing country governments, benefit from a degree of implicit political risk coverage.

In FY 2001 the IFC approved financing commitments of US\$3.9 billion for 205 projects in the developing world. Of this amount, US\$1.2 billion was mobilized through loan syndications. Of the US\$2.7 billion of the IFC's own financing, US\$1.5 billion was provided in the form of loan guarantees, US\$570 million was provided in the form of other types of guarantees and risk management products, US\$386 million was provided as equity investments and US\$251 million was provided as quasi-equity investments.

While the bulk of the IFC's financing is provided to middle-income countries, the institution is increasingly targeting frontier markets (countries, such as those in Africa, traditionally of little interest to private investors). In FY 2001 the IFC increased the share of its activities in such higher-risk markets to 40 per cent of its overall activities. Of this, new financing commitments to Sub-Saharan Africa increased to US\$642 million from US\$345 million in FY 2000, with a strong increase in loan syndications and guarantees. The committed portfolio to this region also rose to US\$1.8 billion from US\$1.5 billion in FY 2000. In total, the IFC finances nearly 10 per cent of all private investment in Africa. Canada supports this stronger focus on frontier markets, while recognizing the difficulties from higher business costs and financial risks.

Canada maintains a 3.4-per-cent share of IFC capital. It has paid-in US\$81.3 million to the IFC's capital stock. Given the risks associated with its financial operations, all of the IFC's authorized capital is paid-in.

Canada's Financial Participation in the IFC

Subscriptions		Voting Power	
Total	Per cent of total	Number of votes	Per cent of total
US\$81.3 million	3.45	81,592	3.39

Multilateral Investment Guarantee Agency

MIGA was created in 1988 to encourage foreign investment in developing countries by providing viable investment insurance against non-commercial risks (e.g., expropriation, transfer restrictions, breach of contract, and war and civil disturbance), thereby improving or creating investment opportunities. MIGA's Canadian clients include Barrick Gold, Hydro-Québec International and The Bank of Nova Scotia.

In FY 2001 MIGA approved 66 guarantees totalling US\$2 billion for 46 projects in 26 developing countries. MIGA estimates that its guarantees facilitated US\$5.2 billion in foreign direct investment. Of this total, 18 projects worth US\$396 million were approved for IDA countries, consistent with MIGA's objective of focusing more of its activities in poorer countries. During FY 2001 MIGA also increased its support for investors from developing countries – it signed 12 contracts for 8 projects involving sponsors from the developing world. MIGA also provides technical assistance services to developing countries. In FY 2001 it offered 59 technical assistance or advisory programs that benefited 38 countries, of which 20 were IDA-eligible (including 8 in Africa).

On March 31, 1998, MIGA's Board of Directors agreed on a general capital increase of US\$850 million. At the end of FY 2001, 51 countries had subscribed a total of US\$330 million, of which US\$279 million was in cash and the remainder in callable capital. Canada contributed to its share of the capital increase in March 2001. Therefore, as of June 30, 2001, Canada held 5,225 shares, with a paid-in portion of US\$10.7 million, and had increased its callable portion by US\$20.1 million. Canada's voting share in MIGA increased slightly to 3.4 per cent.

Canada's Financial Participation in MIGA

Subscriptions		Voting Power	
Total	Per cent of total	Number of votes	Per cent of total
US\$56.5 million	3.45	81,592	3.39
Of which paid-in 10.7			
Of which callable 45.8			

Future Challenges

That millions of the world's poorest are unable to share in the benefits of globalization is both an economic and moral issue, and has made development a prominent theme of G-8 meetings and of policy discussions in other multilateral fora (e.g., in the UN system, regional summits and World Trade Organization negotiations). Development in general, and support for Africa in particular, will be the dominant theme of the G-8 Summit in Canada in 2002.

Effective use of scarce resources is central to international discussions of development issues. At the International Conference on Financing for Development in March 2002, developed and developing country leaders agreed that more must be done to channel resources in support of development and that, for their part, developing countries have a responsibility to ensure that these resources are used effectively. Donors, conscious of the uneven results of decades of Official Development Assistance, want to ensure that scarce assistance resources produce quantifiable results. This requires stronger efforts by developing countries to create sound policy and institutional environments. The Bank, as the world's largest provider of development financing, will play a crucial role in providing advisory and financial assistance to countries to help strengthen their economic, social and governance policies.

Recognizing the importance of country-owned development strategies, the major challenge for the future will be to orient the Bank's operations towards those clients that have strong economic and governance frameworks in place and to help convince countries with weak policy frameworks of the need to alter their policies. The Bank's central role, however, will remain supporting development programs that reduce poverty across and within countries. As the Bank moves increasingly to support nationally owned development strategies, its key challenge will be to work with developing country governments and civil society to ensure that there is sufficient capacity on the ground to develop and implement these strategies. The Bank will also have to work increasingly with other partners, both multilateral and bilateral, on the basis of their comparative institutional strengths, to improve the quality and effectiveness of development assistance within individual countries.

While the Bank has made significant progress in improving the development impact of its operations, it is clear that more needs to be done to strengthen its monitoring of the results and sustainability of its lending and advisory work. Canada will continue to stress the importance of results-based indicators. Moreover, without careful attention to the unique needs of individual countries, the Bank will be unable to meet its objectives of improving the quality of its operations and strengthening its development impact. The Bank will also have to strengthen its development co-operation partnerships with bilateral donors and international organizations, and especially with UN agencies, as it becomes increasingly involved in the global public goods agenda.

Thus, establishing clear development priorities and being more selective in its operations will be key to future success. Canada will continue to stress the need for the Bank to be much more selective and transparent in its operations.

JOINT ISSUES

Overview

The IMF and the World Bank are important institutions for Canada, each playing a unique role in the international economic and financial system. Nevertheless, there are key areas where the mandates of the two Bretton Woods institutions overlap, or where there is a requirement for close co-operation and co-ordination of activities. Indeed, at the Halifax Summit in 1995 G-7 leaders asked that efforts be made to increase co-operation and co-ordination between the IMF and the World Bank. The heads of both institutions have put considerable effort into fulfilling that objective. Two particular examples – the joint preparation of a proposed program of assistance for HIPC's and co-operation on addressing financial sector reform – are examined below. In 1999, given the global community's recognition of the importance of country ownership to the development process in general and of the need to ensure that HIPC debt relief is translated into poverty-reducing social expenditures in particular, the Bank and Fund became active in assisting poor countries draft and implement PRSPs. In 2002 both institutions are undertaking a comprehensive review of the PRSP process (which is summarized below).

Both the IMF and the World Bank were actively involved with the United Nations and governments in the process of planning the United Nations International Conference on Financing for Development, held in Monterrey, Mexico, from March 18-22, 2002. Details are provided in a separate section below.

Strengthening Financial Sectors

Problems in the financial sector, especially the banking system, can disrupt growth and macroeconomic stability and can spill over regionally and internationally, as highlighted by the emerging market financial crises of the late 1990s. In response to concerns about such problems, the IMF and World Bank are devoting increasing attention to financial sector issues. Discussions in both institutions in the past couple of years have focused on how they can assist member countries to establish and maintain sound financial systems.

The special Financial Sector Liaison Committee, composed of senior staff from the IMF and the World Bank, helps ensure effective collaboration between the two institutions on financial sector issues and enhance operational co-ordination on work in the financial sector in individual countries.

To help identify and evaluate vulnerabilities in financial systems, and assess observance of core principles, standards and good practices by member countries, the IMF and World Bank introduced the joint Financial Sector Assessment Program (FSAP) on a one-year pilot basis in May 1999. All 12 FSAP pilot missions were completed by April 2000. After a review of the experience with the FSAP pilot, the IMF and World Bank agreed to extend the FSAP and expand the coverage to up to 24 countries per year. By the end of 2001, 26 FSAPs had been completed and an additional 44 countries had committed to participate in the program.

Information on financial system standards assessed under the FSAP is used to support Fund surveillance through the Financial System Stability Assessments (FSSAs), which are provided to the Executive Board as background to the Article IV consultation process. The summary assessments of standards contained in FSSAs become the Reports on the Observance of Standards and Codes modules.

The FSSAs include a form of “peer review” in that they are prepared with the participation of outside experts drawn from national supervisory agencies. This represents the operationalization of Canada’s financial sector peer review proposal made at the IMF meetings in April 1998.

Canada was the first industrialized country to undergo an FSSA. IMF and World Bank staff members and outside specialists from Australia, Brazil, Germany, Sweden and the United States conducted a pilot review of Canada’s financial system in October 1999. The results of the peer review were released in the staff report for the 2000 Article IV consultation with Canada. Overall, the assessment found Canada’s financial system to be among the soundest in the world (see <http://www.imf.org/external/pubs/cat/longres.cfm?sk=3420.0>).

The international financial institutions’ mandate to strengthen financial systems, promote good governance and fight corruption encompasses the enhancement of a country’s capacity to combat money laundering and financial abuse. At the Prague IMF/World Bank Annual Meetings in 2000, the International Monetary and Financial Committee recognized that the Fund has to play its role as part of international efforts to protect the integrity of the international financial system against financial abuse, including through its efforts to promote sound financial sectors and good governance. It asked the Fund to explore how to incorporate work on financial abuse, particularly with respect to international efforts to fight money laundering, into its activities. It called on the Fund to prepare a joint paper with the World Bank on their respective roles in combatting money laundering and financial crime for discussion by their Boards. As a result, in April 2001 the Fund’s Executive Board agreed the IMF would take the following steps to enhance the international efforts to counter money laundering:

- intensify its focus on anti-money laundering elements in all relevant supervisory principles, in particular by developing a methodology for enhancing the assessment of financial standards relevant to countering money laundering;
- work more closely with major international anti-money laundering groups;
- increase the provision of technical assistance in this area;
- include anti-money laundering concerns in its surveillance and other operational activities when relevant to macroeconomic issues; and
- undertake additional studies and publicize the importance of countries acting to protect themselves against money laundering.

The Fund and Bank have produced a draft methodology designed to enhance the assessment of financial standards relevant to countering money laundering, and the Fund assessments using this methodology on a pilot basis in some FSAPs have begun. In addition, the Fund and Bank have recognized the Financial Action Task Force 40 Recommendations as the appropriate international anti-money laundering standards and have agreed to adapt those Recommendations that are relevant to their mandates. As indicated earlier in the "Financial Sector Work" section, it was agreed following the events of September 11 that the Fund would extend its involvement beyond money laundering to efforts aimed at countering terrorist financing.

Following the recommendation of the Financial Stability Forum, the IMF also agreed to carry out assessments of offshore financial centres (OFCs) to help them identify and reduce vulnerabilities in their financial systems. The IMF completed nine OFC assessments in 2001. To help provide technical assistance in the Caribbean region, the Fund, in close collaboration with Canada, established the Caribbean Regional Technical Assistance Centre (CARTAC), which became operational in September 2001. Canada is the largest single donor to CARTAC, which is designed to strengthen the region's technical capability in financial sector regulation and supervision, tax administration and other areas.

Multilateral Debt Relief

In September 1996 the IMF and World Bank launched the Heavily Indebted Poor Countries Initiative (HIPC Initiative) to reduce the unsustainable debt burdens of the world's poorest countries. After a review of the HIPC Initiative in 1999, a number of modifications were approved to provide faster, deeper and broader debt relief and to strengthen the links between debt relief, poverty reduction and social policies. Currently 42 countries are being considered for assistance under the HIPC Initiative. Of these, it is likely that 38, including Guyana – a member of Canada's constituency at the Bank – will benefit from the initiative.

Good progress has been made: as of the end of December 2001, 24 countries were benefiting from debt relief under the HIPC Initiative. Four of these countries (Bolivia, Mozambique, Tanzania and Uganda) have completed the HIPC process and received irrevocable debt relief. By the time these 24 countries complete the HIPC process, their total debt stocks will be cut by more than half, from US\$54 billion, in net present value terms, to US\$21 billion. On average, the debt service due in 2001-03 is roughly 30 per cent less than the amount paid before HIPC debt relief. In 2002 social expenditures are expected to increase by an average of 40 per cent from 1999 levels, with savings on debt relief accounting for a sizable proportion of this increase.

With the relatively stronger HIPC cases making good progress, further progress on the overall initiative will require closer examination of how best to bring the eight conflict-affected HIPC countries¹³ to the decision point, or into

¹³ Burundi, Central African Republic, Congo (Democratic Republic of), Congo (Republic of), Liberia, Sierra Leone, Somalia and Sudan.

the process. Their special circumstances could merit flexible treatment. Canada, for example, has expressed its willingness to consider, on a case-by-case basis, a relaxation of the time frame normally required for the completion of reforms. However, many countries emerging from conflict have serious governance problems that could undermine assistance efforts; these governance issues will need to be addressed before the international community can engage meaningfully with them.

Maintaining long-term debt sustainability in HIPC's will also be a challenge, given the global economic slowdown and the impact of the terrorist attacks on September 11th. The economic weakness of many HIPC's leaves them vulnerable to exogenous shocks, such as a fall in primary commodities' prices, which could alter their debt sustainability prognosis. At the November 2001 meeting of the Development Committee in Ottawa, Bank and Fund Governors agreed that, where warranted and on an exceptional basis, additional debt relief could be provided at the completion point in order to ensure a lasting exit from debt problems. Canada was a strong supporter of these measures.

Canada's Actions in Support of the HIPC Initiative

Canada has been at the forefront of international efforts for a swift and decisive approach to the debt burdens of the world's poorest countries, both multilaterally and bilaterally. Multilaterally, Canada has consistently advanced the debt relief agenda by:

- leading efforts in the G-7 for the enhanced HIPC debt initiative (announced in September 1999);
- contributing C\$215 million to the debt relief trust funds at the IMF (C\$65 million) and World Bank (C\$150 million) to ensure timely debt relief for deserving countries;
- calling on all bilateral creditors to put in place a moratorium on debt payments from reforming HIPC's; and
- calling for flexibility in linking HIPC debt relief to the PRSP process to avoid delaying debt relief to deserving countries.

Bilaterally, Canada is helping the poorest countries by:

- as of January 1, 2001, introducing a debt moratorium stopping the collection of debt payments from 11 reforming HIPC's on loans outstanding as of March 31, 1999;
- forgiving C\$1.3 billion in Official Development Assistance (ODA) debt to 46 developing countries since 1978, including all of its ODA debt to 22 HIPC's, at a cost of C\$900 million; of the HIPC's, only Myanmar (formerly Burma) currently has ODA debt to Canada; and
- providing development assistance since 1986 on a grant basis so as to avoid worsening the debt problems in the poorest countries.

Poverty Reduction Strategy Paper Review

A key element of the HIPC process is the commitment of recipients to channel the resources freed by debt relief to support poverty reduction. Country-owned PRSPs have helped provide a strategic framework to do so. By the end of December 2001, 41 countries had prepared interim strategies and 8 had completed their first full PRSP.

However, it is clear that the PRSP process is not perfect – a wide variation in quality exists. Canada, other donors and NGOs alike have noted the trade-off between the time needed to produce a quality PRSP and the promise under the enhanced HIPC debt initiative of “faster” debt relief (e.g., some HIPCs are experiencing delays in preparing full PRSPs, which will delay the completion point). The Bank and Fund are undertaking a comprehensive review of the PRSP process with a view to making it a more effective development tool.

As part of this review, the Bank and Fund jointly hosted an international conference in January 2002. The key conclusions of the conference will be presented to Bank and Fund Governors at the International Monetary and Financial Committee and Development Committee meetings in April 2002. Discussion focused on process (particularly mainstreaming country ownership, ensuring meaningful participatory processes take place, and the perceived tension between speed of preparation and the quality of the strategy), content (including the expected scope of the PRSP) and implementation (including appropriate monitoring and evaluation, the frequency of progress reports and updates, and alignment of donor strategies with the priorities outlined in the PRSPs).

Leading up to the January conference, the Bank and Fund organized four regional PRSP forums in the fall of 2001 to feed into the review process. These fora provided those from the developing world involved with an important vehicle for sharing experiences and expressing concerns about the PRSP process. PRSP review consultations were also undertaken with developed country governments, including Canada, and NGOs. The inclusion of this broad range of stakeholders in the review process allowed for an atmosphere of openness that greatly enriched the debate.

Monterrey Conference on Financing for Development

The International Conference on Financing for Development, hosted by Mexico in Monterrey from March 18-22, 2002, was attended by over 180 countries, with representation by over 60 heads of government or state, including Prime Minister Jean Chrétien. The heads of the World Bank, IMF and other international institutions, as well as representatives of civil society and the private sector, also participated. The conference resulted in the adoption of the “Monterrey Consensus” by participating governments, a document that embodies a new development compact among developed and developing countries.

The cornerstone of this compact is that developing countries should strive for good governance, sound economic policies and market-oriented economies in order to attract investment and aid resources and use them effectively. The Consensus also calls for increased co-operation among all the major international institutions – the World Bank, IMF, World Trade Organization and United Nations.

The Consensus asserts that Official Development Assistance and other resources must increase substantially if internationally agreed development goals, including those in the Millennium Declaration, are to be met. It notes that in many cases trade is the single most important source of development financing, and it reaffirms the commitment of all countries to trade liberalization. It also recognizes the value of exploring innovative sources of financing and putting in place a clear set of principles for the management and resolution of financial crises based on public/private burden sharing. Finally, it recognizes an urgent need to enhance the coherence, governance and consistency of the international monetary, financial and trading systems. While the Consensus has been criticized by some for being short on concrete commitments, in the run-up to the Monterrey conference some developed countries committed to increase their development assistance for developing countries that can use it effectively.

ANNEX 1

Active IMF Lending Arrangements – As of December 31, 2001

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Stand-By Arrangements – Total			45,573.70	20,134.28
Argentina ¹	March 10, 2000	March 9, 2003	16,936.80	7,180.49
Brazil ¹	September 14, 2001	December 13, 2002	12,144.40	8,468.82
Croatia	March 19, 2001	May 18, 2002	200.00	200.00
Gabon	October 23, 2000	April 22, 2002	92.58	79.36
Latvia	April 20, 2001	December 19, 2002	33.00	33.00
Lithuania	August 30, 2001	March 29, 2003	86.52	86.52
Panama	June 30, 2000	March 29, 2002	64.00	64.00
Peru	March 12, 2001	March 11, 2002	128.00	128.00
Romania	October 31, 2001	April 29, 2003	300.00	248.00
Sri Lanka	April 20, 2001	June 19, 2002	200.00	96.65
Turkey ¹	December 22, 1999	December 21, 2002	15,038.40	3,299.44
Uruguay	May 31, 2000	March 31, 2002	150.00	150.00
Yugoslavia, Fed. Rep.	June 11, 2001	March 31, 2002	200.00	100.00
Extended Fund Facility arrangements – Total			7,971.93	5,551.14
Columbia	December 20, 1999	December 19, 2002	1,957.00	1,957.00
Indonesia	February 4, 2000	December 31, 2002	3,638.00	2,477.20
Jordan	April 15, 1999	April 14, 2002	127.88	60.89
Kazakhstan	December 13, 1999	December 12, 2002	329.10	329.10
Ukraine	September 4, 1998	August 15, 2002	1,919.95	726.95

¹ Includes amounts under the Supplemental Reserve Facility.

ANNEX 1

Active IMF Lending Arrangements – As of December 31, 2001 (cont'd)

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Poverty Reduction and Growth Facility arrangements – Total			4,257.62	2,781.97
Armenia	May 23, 2001	May 22, 2004	69.00	59.00
Azerbaijan	July 6, 2001	July 5, 2004	80.45	72.40
Benin	July 17, 2000	July 16, 2003	27.00	12.12
Bolivia	September 18, 1998	June 7, 2002	100.96	37.10
Burkina Faso	September 10, 1999	September 9, 2002	39.12	11.17
Cambodia	October 22, 1999	October 21, 2002	58.50	25.07
Cameroon	December 21, 2000	December 20, 2003	111.42	79.58
Central African Republic	July 20, 1998	January 19, 2002	49.44	24.96
Chad	January 7, 2000	January 6, 2003	42.00	18.20
Djibouti	October 18, 1999	October 17, 2002	19.08	10.00
Ethiopia	March 22, 2001	March 21, 2004	86.90	52.14
Georgia	January 12, 2001	January 11, 2004	108.00	81.00
Ghana	May 3, 1999	May 2, 2002	228.80	105.17
Guinea	May 2, 2001	May 1, 2004	64.26	51.41
Guinea-Bissau	December 15, 2000	December 14, 2003	14.20	9.12
Honduras	March 26, 1999	December 31, 2002	156.75	48.45
Kenya	August 4, 2000	August 3, 2003	190.00	156.40
Kyrgyz Republic	December 6, 2001	December 5, 2004	73.40	61.68
Lao People's Dem. Republic	April 25, 2001	April 24, 2004	31.70	27.17
Lesotho	March 9, 2001	March 8, 2004	24.50	17.50
Madagascar	March 1, 2001	February 29, 2004	79.43	56.74
Malawi	December 21, 2000	December 20, 2003	45.11	38.67
Mali	August 6, 1999	August 5, 2003	51.32	19.65
Mauritania	July 21, 1999	July 20, 2002	42.49	12.14
Moldova	December 21, 2000	December 20, 2003	110.88	92.40
Mongolia	September 28, 2001	September 27, 2004	28.49	24.42
Mozambique	June 28, 1999	June 27, 2002	87.20	25.20
Nicaragua	March 18, 1998	March 17, 2002	148.96	33.64
Niger	December 22, 2000	December 21, 2003	59.20	42.28
Pakistan	December 6, 2001	December 5, 2004	1,033.70	947.54
Rwanda	June 24, 1998	April 30, 2002	71.40	9.52
São Tomé and Príncipe	April 28, 2000	April 27, 2003	6.66	4.76
Senegal	April 20, 1998	April 19, 2002	107.01	19.54
Sierra Leone	September 26, 2001	September 25, 2004	130.84	84.00
Tanzania	April 4, 2000	April 3, 2003	135.00	55.00
Vietnam	April 13, 2001	April 12, 2004	290.00	207.20
Zambia	March 25, 1999	March 28, 2003	254.45	149.63
Total			57,803.25	28,467.39

ANNEX 2

IBRD Loans and IDA Credits – Fiscal Year 2001 (July 1, 2000 – June 30, 2001)

	IBRD	IDA	Total	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
By area				
Africa	0.0	3,369.6	60	3,369.6
East Asia/Pacific	1,136.1	997.7	24	2,133.8
Europe and Central Asia	2,154.1	539.0	54	2,693.1
Latin America and the Caribbean	4,806.7	493.4	50	5,300.1
Middle East and North Africa	355.2	152.3	14	507.5
South Asia	2,035.0	1,211.5	24	3,246.5
Total	10,487.1	6,763.5	226	17,250.6
By purpose				
Agriculture	674.0	782.9		1,456.9
Economic policy	98.5	1,225.3		1,323.8
Education	381.6	412.5		794.1
Electric power and energy	732.0	92.4		824.4
Environment	488.9	27.0		515.9
Finance	1,800.2	431.1		2,231.3
Health, nutrition and population	483.6	564.2		1,047.8
Mining	18.0	18.0		36.0
Multisector	5.1	45.0		50.1
Oil and gas	–	81.6		81.6
Private sector development	20.3	487.0		507.3
Public sector management	1,904.5	666.1		2,570.6
Social protection	873.3	799.2		1,672.5
Telecommunications	65.0	–		65.0
Transportation	2,422.0	547.9		2,969.9
Urban development	319.2	230.3		549.5
Water supply and sanitation	201.0	353.0		554.0
Total	10,487.1	6,763.5		17,250.6

ANNEX 3

IBRD Loans and IDA Credits to Developing Countries

	IBRD		IDA		Total	
	No.	Amount	No.	Amount	No.	Amount
(in millions of US dollars)						
By fiscal year (July-June)						
Cumulative to 1968	549	11,418.1	116	1,831.8	665	13,249.9
Total 1969-1973	374	8,917.8	273	3,931.6	647	12,849.4
Total 1974-1978	666	24,372.3	376	7,947.4	1,042	32,319.7
Total 1979-1983	711	44,908.0	518	16,368.1	1,229	61,276.1
1983-1984	129	11,947.2	106	3,575.0	235	15,522.2
1984-1985	131	11,356.3	105	3,028.1	236	14,384.4
1985-1986	131	13,178.8	97	3,139.9	228	16,318.7
1986-1987	127	14,188.2	108	3,485.8	235	17,674.0
1987-1988	118	14,762.0	99	4,458.7	217	19,220.7
1988-1989	119	16,433.2	106	4,933.6	225	21,366.8
1989-1990	121	15,179.7	101	5,522.0	222	20,701.7
1990-1991	126	16,392.2	103	6,293.3	229	22,685.5
1991-1992	112	15,156.0	110	6,549.7	222	21,705.7
1992-1993	122	16,944.5	123	6,751.4	245	23,695.9
1993-1994	124	14,243.9	104	6,592.1	228	20,836.0
1994-1995	134	16,852.6	108	5,669.2	242	22,521.8
1995-1996	129	14,656.0	127	6,864.0	256	21,520.0
1996-1997	141	14,525.0	100	4,622.0	241	19,147.0
1997-1998	151	21,086.2	135	7,507.8	286	28,594.0
1998-1999	131	22,182.3	145	6,811.8	276	28,994.1
1999-2000	97	10,918.6	126	4,357.6	223	15,276.2
2000-2001	91	10,487.1	134	6,763.5	225	17,250.6
Total	4,534	360,106.0	3,320	127,004.4	7,854	487,110.4

ANNEX 4**Disbursements by IBRD and IDA Borrowers –
Goods and Services From Canada – To June 30, 2001**

	IBRD Amount	IDA Amount	Total Amount
(in millions of US dollars)			
By calendar year			
Cumulative to December 1960	133.5	–	133.5
1961	8.2	–	8.2
1962	3.7	–	3.7
1963	5.6	7.4	13.0
1964	4.7	1.8	6.5
1965	5.4	2.7	8.1
1966	11.6	5.3	16.9
1967	13.2	14.7	27.9
1968	6.3	7.8	14.1
1969	4.4	11.0	15.4
1970	7.6	1.3	8.9
1971	11.1	2.2	13.3
1972	10.5	2.3	12.8
1973	12.4	5.1	17.5
1974	15.8	8.4	24.2
1975	22.1	15.0	37.1
1976	25.7	10.8	36.5
1977	34.5	4.8	39.3
1978	26.1	5.5	31.6
1979	44.4	8.1	52.5
1980	51.5	7.8	59.3
1981	94.3	14.5	108.8
1982	75.0	17.6	92.6
1983	82.3	26.9	109.2
1984	92.6	54.3	146.9
1985	94.3	39.7	134.0
1986	184.8	46.8	231.6
1987 (January – June)	92.8	23.4	116.2

ANNEX 4

Disbursements by IBRD and IDA Borrowers – Goods and Services From Canada – To June 30, 2001 (*cont'd*)

	IBRD	IDA	Total
	Amount	Amount	Amount
	(in millions of US dollars)		
By fiscal year			
1987 – 1988	182.1	47.4	229.5
1988 – 1989	197.0	45.0	242.0
1989 – 1990	164.0	41.0	205.0
1990 – 1991	139.0	34.0	173.0
1991 – 1992	131.0	38.0	169.0
1992 – 1993	151.0	41.0	192.0
1993 – 1994	115.0	69.0	184.0
1994 – 1995	123.0	48.0	171.0
1995 – 1996	169.0	56.0	225.0
1996 – 1997	113.0	42.0	155.0
1997 – 1998	82.0	32.0	114.0
1998 – 1999	69.0	37.0	106.0
1999 – 2000	73.0	22.0	95.0
2000 – 2001	45.0	15.0	60.0
Total	2,878.0	886.0	3,765.0
Per cent of total disbursements	2.36	1.84	2.21
Per cent of FY 2001 disbursements	2.76	1.38	2.22

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country –
As of June 30, 2001

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Borrower or guarantor				
Afghanistan	–	230.1	20	230.1
Africa region	259.8	50.5	13	310.3
Albania	–	569.4	42	569.4
Algeria	5,697.7	–	67	5,697.7
Angola	–	310.8	11	310.8
Argentina	18,212.4	–	110	18,212.4
Armenia	12.0	644.8	24	656.8
Australia	417.7	–	7	417.7
Austria	106.4	–	9	106.4
Azerbaijan	–	461.6	16	461.6
Bahamas	42.8	–	5	42.8
Bangladesh	46.1	9,592.4	170	9,638.5
Barbados	118.3	–	12	118.3
Belarus	192.8	–	4	192.8
Belgium	76.0	–	4	76.0
Belize	86.2	–	9	86.2
Benin	–	743.5	51	743.5
Bhutan	–	64.3	9	64.3
Bolivia	299.3	1,669.2	78	1,968.5
Bosnia and Herzegovina	–	709.5	35	709.5
Botswana	280.7	15.8	25	296.5
Brazil	30,379.4	–	266	30,379.4
Bulgaria	1,533.1	–	26	1,533.1
Burkina Faso	1.9	1,063.9	53	1,065.8
Burundi	4.8	788.5	51	793.3
Cambodia	–	430.1	16	430.1
Cameroon	1,347.8	1,120.5	72	2,468.3
Cape Verde	–	154.4	15	154.4
Caribbean region	83.0	43.0	6	126.0
Central African Republic	–	431.5	26	431.5
Chad	39.5	771.9	40	811.4
Chile	3,585.9	19.0	60	3,604.9
China	25,566.3	9,946.7	234	35,513.0
Colombia	10,017.1	19.5	160	10,036.6
Comoros	–	113.1	17	113.1
Congo, Democratic Republic of	330.0	1,151.5	66	1,481.5
Congo, Republic of	216.7	183.6	20	400.3
Costa Rica	921.5	5.5	39	927.0
Côte d'Ivoire	2,887.9	1,830.5	86	4,718.4
Croatia	781.6	–	17	781.6
Cyprus	418.8	–	30	418.8
Czech Republic	776.0	–	3	776.0
Denmark	85.0	–	3	85.0
Djibouti	–	100.6	13	100.6
Dominica	3.1	14.1	4	17.1
Dominican Republic	896.7	22.0	34	918.7

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country – As of June 30, 2001 (cont'd)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Eastern Africa region	–	45.0	1	45.0
Ecuador	2,656.3	36.9	74	2,693.2
Egypt, Arab Republic of	4,497.5	1,984.0	104	6,481.5
El Salvador	820.6	25.6	34	846.2
Equatorial Guinea	–	45.0	9	45.0
Eritrea	–	320.4	9	320.4
Estonia	150.7	–	8	150.7
Ethiopia	108.6	3,569.5	79	3,678.1
Fiji	152.9	–	12	152.9
Finland	316.8	–	18	316.8
France	250.0	–	1	250.0
Gabon	227.0	–	14	227.0
Gambia	–	228.2	26	228.2
Georgia	–	647.1	28	647.1
Ghana	207.0	3,685.9	108	3,892.9
Greece	490.8	–	17	490.8
Grenada	8.9	13.8	3	22.7
Guatemala	1,140.6	–	35	1,140.6
Guinea	75.2	1,148.2	57	1,223.4
Guinea-Bissau	–	259.9	22	259.9
Guyana	80.0	307.6	29	387.6
Haiti	2.6	626.5	37	629.1
Honduras	717.3	1,218.1	61	1,935.4
Hungary	4,333.6	–	40	4,333.6
Iceland	47.1	–	10	47.1
India	28,797.4	27,548.1	424	56,345.5
Indonesia	27,340.1	1,397.6	294	28,737.7
Iran, Islamic Republic of	2,290.1	–	41	2,290.1
Iraq	156.2	–	6	156.2
Ireland	152.5	–	8	152.5
Israel	284.5	–	11	284.5
Italy	399.6	–	8	399.6
Jamaica	1,401.0	–	63	1,401.0
Japan	862.9	–	31	862.9
Jordan	2,036.7	85.3	67	2,122.0
Kazakhstan, Republic of	1,883.6	–	22	1,883.6
Kenya	1,200.7	3,221.0	123	4,421.7
Korea, Republic of	15,647.0	110.8	119	15,757.8
Kyrgyz Republic	–	606.4	24	606.4

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country –
As of June 30, 2001 (*cont'd*)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Lao People's Democratic Republic	–	617.7	29	617.7
Latvia	393.7	–	17	393.7
Lebanon	940.1	–	18	940.1
Lesotho	155.0	331.8	31	486.8
Liberia	156.0	114.5	33	270.5
Lithuania	448.4	–	15	448.4
Luxembourg	12.0	–	1	12.0
Macedonia, Former Yugoslav Republic of	252.0	343.7	22	595.7
Madagascar	32.9	2,120.7	84	2,153.5
Malawi	124.1	1,948.1	78	2,072.2
Malaysia	4,150.6	–	87	4,150.6
Maldives	–	64.9	7	64.9
Mali	1.9	1,451.8	63	1,453.7
Malta	7.5	–	1	7.5
Mauritania	146.0	614.2	49	760.2
Mauritius	417.8	20.2	35	438.0
Mexico	33,161.0	–	178	33,161.0
Moldova	302.8	156.0	16	458.8
Mongolia	–	271.7	14	271.7
Morocco	8,540.4	50.8	130	8,591.2
Mozambique	–	1,991.6	38	1,991.6
Myanmar	33.4	804.0	33	837.4
Nepal	–	1,612.0	71	1,612.0
Netherlands, The	244.0	–	8	244.0
New Zealand	126.8	–	6	126.8
Nicaragua	233.6	1,057.6	57	1,291.2
Niger	–	922.1	48	922.1
Nigeria	6,248.2	1,157.2	103	7,405.4
Norway	145.0	–	6	145.0
Organization of Eastern Caribbean States countries	10.4	7.1	2	17.5
Oman	157.1	–	11	157.1
Pakistan	6,614.2	5,842.4	194	12,456.7
Panama	1,262.7	–	44	1,262.7
Papua New Guinea	729.3	113.2	42	842.5
Paraguay	807.9	45.5	42	853.4
Peru	5,298.2	–	87	5,298.2
Philippines	11,008.7	294.2	159	11,302.9
Poland	5,284.8	–	36	5,284.8
Portugal	1,338.8	–	32	1,338.8

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country –
As of June 30, 2001 (cont'd)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Romania	5,438.4	–	64	5,438.4
Russia	12,209.0	–	49	12,209.0
Rwanda	–	1,048.0	53	1,048.0
Samoa	–	66.0	10	66.0
São Tomé and Príncipe	–	68.9	10	68.9
Senegal	164.9	2,118.2	98	2,283.0
Seychelles	10.7	–	2	10.7
Sierra Leone	18.7	472.2	28	490.9
Singapore	181.3	–	14	181.3
Slovak Republic	135.0	–	2	135.0
Slovenia	177.7	–	5	177.7
Solomon Islands	–	49.9	8	49.9
Somalia	–	492.1	39	492.1
South Africa	287.8	–	12	287.8
Spain	478.7	–	12	478.7
Sri Lanka	210.7	2,353.7	88	2,564.4
Saint Kitts and Nevis	15.6	7.0	2	22.6
Saint Lucia	10.0	12.7	4	22.7
Saint Vincent and the Grenadines	1.4	6.4	2	7.8
Sudan	166.0	1,352.9	55	1,518.9
Swaziland	104.8	7.8	14	112.6
Syrian Arab Republic	613.2	47.3	20	660.5
Taiwan, Province of China	329.4	15.3	18	344.7
Tajikistan	–	261.3	14	261.3
Tanzania	318.9	3,508.6	115	3,827.5
Thailand	7,979.1	125.1	124	8,104.2
Togo	20.0	733.5	42	753.5
Tonga	–	5.0	2	5.0
Trinidad and Tobago	313.6	–	21	313.6
Tunisia	4,701.6	74.6	119	4,776.2
Turkey	16,567.9	178.5	141	16,746.4
Turkmenistan	89.5	–	3	89.5
Uganda	9.1	3,220.7	79	3,229.8
Ukraine	2,892.5	–	19	2,892.5
Uruguay	1,754.6	–	47	1,754.6
Uzbekistan	463.0	–	10	463.0
Vanuatu	–	18.9	5	18.9
Venezuela	3,328.4	–	40	3,328.4
Vietnam	–	3,269.4	31	3,269.4
Western Africa region	6.1	61.9	5	68.0
Yemen, Republic of	–	1,918.1	122	1,918.1
Yugoslavia, Federal Republic of	6,114.7	–	90	6,114.7
Zambia	679.1	2,485.6	78	3,164.7
Zimbabwe	983.2	661.9	36	1,645.1
Bank-wide total	360,020.1	126,997.2	7,834	487,017.4

ANNEX 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2001,
by Country (July 1, 2000 – June 30, 2001)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Borrower or guarantor				
Africa region	–	5.0	1	5.0
Albania	–	28.0	3	28.0
Algeria	41.7	–	2	41.7
Argentina	440.7	–	5	440.7
Armenia	–	61.4	2	61.4
Azerbaijan	–	50.4	3	50.4
Bangladesh	–	279.6	5	279.6
Barbados	15.1	–	1	15.1
Belarus	–	22.6	1	22.6
Belize	14.4	–	1	14.4
Benin	–	10.0	1	10.0
Bolivia	–	100.0	3	100.0
Bosnia and Herzegovina	–	124.3	7	124.3
Brazil	1,676.6	–	10	1,676.6
Bulgaria	102.4	–	4	102.4
Burkina Faso	–	136.7	2	136.7
Burundi	–	47.5	2	47.5
Cambodia	–	45.0	1	45.0
Cameroon	–	57.8	1	57.8
Cape Verde	–	5.0	1	5.0
Chad	–	67.0	1	67.0
China	787.5	–	7	787.5
Colombia	185.5	–	2	185.5
Comoros	–	11.4	1	11.4
Croatia	18.9	–	2	18.9
Djibouti	–	10.0	1	10.0
Dominican Republic	28.4	–	2	28.4
Ecuador	32.0	–	1	32.0
Egypt, Arab Republic of	50.0	–	1	50.0
Eritrea	–	170.0	3	170.0
Ethiopia	–	666.8	7	666.8
Gambia	–	15.0	1	15.0
Georgia	–	89.9	4	89.9
Ghana	–	141.0	2	141.0
Grenada	5.1	5.0	1	10.1
Guatemala	82.5	–	2	82.5
Honduras	–	206.2	5	206.2

ANNEX 6

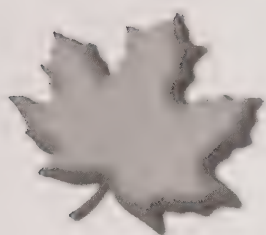
Projects Approved for IBRD and IDA Assistance in Fiscal Year 2001, by Country (July 1, 2000 – June 30, 2001) (cont'd)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
India	2,035.0	520.3	12	2,555.3
Indonesia	283.8	209.4	4	493.2
Jamaica	75.0	–	1	75.0
Jordan	120.0	–	1	120.0
Kazakhstan, Republic of	64.5	–	1	64.5
Kenya	–	350.2	5	350.2
Kyrgyz Republic	–	72.0	3	72.0
Lao People's Democratic Republic	–	41.7	2	41.7
Latvia	38.4	–	2	38.4
Lebanon	20.0	–	1	20.0
Lesotho	–	28.6	1	28.6
Lithuania	98.5	–	1	98.5
Macedonia, Former Yugoslav Republic of	46.5	49.9	5	96.4
Madagascar	–	267.6	2	267.6
Malawi	–	73.6	2	73.6
Mali	–	70.4	1	70.4
Mauritania	–	18.3	1	18.3
Mexico	1,982.2	–	5	1,982.2
Moldova	–	10.0	1	10.0
Mongolia	–	64.0	2	64.0
Morocco	97.6	–	2	97.6
Mozambique	–	18.0	1	18.0
Nicaragua	–	182.2	5	182.2
Niger	–	95.2	2	95.2
Nigeria	–	174.3	2	174.3
Pakistan	–	374.3	3	374.3
Peru	150.0	–	2	150.0
Philippines	64.8	–	2	64.8
Poland	154.5	–	3	154.5
Romania	130.0	–	2	130.0
Russia	397.5	–	5	397.5
Rwanda	–	118.6	3	118.6
Samoa	–	5.0	1	5.0
São Tomé and Príncipe	–	10.0	2	10.0
Senegal	–	255.0	3	255.0
Sierra Leone	–	13.5	1	13.5
Sri Lanka	–	37.3	3	37.3

ANNEX 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2001,
by Country (July 1, 2000 – June 30, 2001) (cont'd)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Tajikistan	–	53.1	1	53.1
Tanzania	–	75.8	2	75.8
Tunisia	75.9	–	3	75.9
Turkey	1,027.8	–	2	1,027.8
Uganda	–	358.4	6	358.4
Ukraine	52.5	–	2	52.5
Uruguay	6.0	–	1	6.0
Uzbekistan	–	–	–	–
Vanuatu	–	3.5	1	3.5
Venezuela	30.0	–	1	30.0
Vietnam	–	629.1	4	629.1
Western Africa region	–	9.4	1	9.4
Yemen, Republic of	–	142.3	4	142.3
Zambia	–	99.5	3	99.5
Bank-wide total	10,487.1	6,763.5	225	17,250.6



REPORT ON

OPERATIONS UNDER

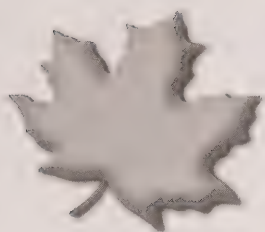
THE BRETTON WOODS

AND RELATED

AGREEMENTS ACT

2002





REPORT ON

OPERATIONS UNDER

THE BRETTON WOODS

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INTRODUCTION

The Bretton Woods institutions—the International Monetary Fund (the IMF or the Fund) and the World Bank (the Bank)¹—were founded at a conference held at Bretton Woods, New Hampshire, in 1944. The IMF was established to promote the smooth functioning of the international monetary system, encourage international trade and support high rates of sustainable economic growth. To achieve these goals, it exercises a surveillance function by monitoring members' economic policies, provides policy advice and technical assistance, and extends short- and medium-term financial assistance to countries faced with balance of payments difficulties.

The World Bank's goal is to reduce poverty by raising living standards and promoting sustainable development in developing countries. As the premier development institution in the world, it provides a wide range of assistance to developing countries, including economic policy advice, and lending and technical assistance for projects that promote sustainable growth and an improved quality of life.

Canada is the eighth largest member of the IMF (as measured by quotas), tied with China, after the six other Group of Seven (G-7) countries and Saudi Arabia. Along with China, Italy, Russia, India and Saudi Arabia, Canada is the sixth largest shareholder of the World Bank. On the Executive Boards of the two institutions, Canada represents Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. On the Bank's Executive Board, Canada also represents Guyana. Canada's formal participation in the two institutions is authorized under the Bretton Woods and Related Agreements Act. Section 13 of the Act states that:

The Minister of Finance shall cause to be laid before Parliament, on or before March 31 next following the end of each calendar year or, if Parliament is not then sitting, on any of the first thirty days next thereafter that either House of Parliament is sitting, a report containing a general summary of operations under this Act and details of all those operations that directly affect Canada, including the resources and lending of the World Bank Group, the funds subscribed or contributed by Canada, borrowings in Canada and procurement of Canadian goods and services.

This report has been prepared in accordance with this provision. The sections that follow review the activities and operations of first the IMF and then the Bank for the year 2002. A final section deals with issues common to both institutions. The annexes contain detailed numerical summaries of the year's activities.

¹ In this document "World Bank" and "Bank" refer to the International Bank for Reconstruction and Development and the International Development Association. "World Bank Group" and "Bank Group" refer to the broader group of World Bank institutions that includes the International Finance Corporation and the Multilateral Investment Guarantee Agency, as well as the two institutions of the World Bank proper. For more details see the box on page 31.

Roles of the International Monetary Fund and World Bank***International Monetary Fund***

- Oversees the international monetary system and promotes international monetary cooperation.
- Promotes orderly exchange rate relations among member countries.
- Provides short- to medium-term financial support to members facing balance of payments difficulties.
- Provides support for poverty reduction through promotion of economic stability.
- Draws its financial resources primarily from the quota subscriptions of its members.

World Bank

- Provides support for poverty reduction in developing countries through investments in such areas as health and education.
- Promotes economic development and structural reform in developing countries.
- Assists developing countries through long-term financing of development projects and programs.
- Provides special financial assistance to the poorest developing countries through the International Development Association.
- Stimulates private enterprise development and private investment in developing countries primarily through its affiliates, the International Finance Corporation and the Multilateral Investment Guarantee Agency.
- Enhances the flow of capital and technology for productive purposes to developing countries by providing investment insurance against non-commercial risks for investments in developing countries.
- Secures most of its financial resources by borrowing on international capital markets.

INTERNATIONAL MONETARY FUND

Overview

As a major trading nation, Canada benefits from a strong international monetary system that facilitates the free movement of goods, services and capital. The IMF promotes international financial stability and economic growth through the provision of policy advice and financial and technical assistance to countries experiencing unsustainable external imbalances and related economic difficulties.

Benefits of Membership

IMF membership provides a number of specific benefits:

- The Minister of Finance is a Governor of the Fund and elects an Executive Director to its 24-member Executive Board. This representation allows Canada to have high-level influence on decisions taken by the IMF on specific country assistance programs and major policy issues affecting the world monetary and financial system.
- The IMF, through its regular surveillance of the Canadian economy, provides Canada with an independent source of policy advice on macroeconomic policies and engages in regular dialogue on these policies with Canadian officials at the Department of Finance, other government agencies and the Bank of Canada.
- The efforts of the IMF to make sure that countries abide by their obligations, including those under Fund-supported programs, help ensure that they repay Canadian bilateral loans and use our bilateral development assistance effectively.
- Canada earns a market rate of return on its financial position in the IMF.
- Were Canada to experience severe balance of payments difficulties, it would have the right to draw on IMF financial assistance.

How the IMF Works

The IMF works like a credit union. It has a large pool of liquid assets, or resources, comprising convertible national currencies, special drawing rights,¹ and other widely used international currencies provided by its members, which it makes available to help members finance temporary balance of payments problems.

Members provide resources to the IMF in amounts determined by “quotas” reflecting each country’s relative importance in the world economy. A country’s quota in turn helps determine the amount of Fund resources that it may use should it experience economic difficulties. At the end of 2002 the total quota for the Fund’s 184 members was SDR 212.7 billion.

A member country uses the general resources of the IMF by purchasing (drawing) other members’ currencies with an equivalent amount of its own currency. A member repurchases (repays) its own currency from the IMF with other members’ currencies over a specified period of time, with interest. In this way, a member country receives credit from other members.

Members seeking financial assistance can draw on four “credit tranches,” each amounting to 25 per cent of their quota. For access to resources beyond the first credit tranche, the member and the IMF have to reach an agreement on a set of economic measures and reforms aimed at removing the source of the country’s balance of payments difficulty and creating the conditions necessary for sustainable non-inflationary growth.

Depending on the prospective duration of the problem, these measures are agreed to as part of a Stand-By Arrangement, which typically lasts one to two years, or an Extended Fund Facility, which generally runs for three years. Short-term financing for balance of payments difficulties related to crises of market confidence is also available through the Supplemental Reserve Facility, created in December 1997. A precautionary line of defence is available through Contingent Credit Lines, established in April 1999, to countries that are pursuing sound policies but are nonetheless vulnerable to contagion.

Members can also use financial facilities created for specific purposes, including the Compensatory Financing Facility, which provides financial support to members experiencing temporary export shortfalls or other unforeseen adverse external shocks.

Concessional financing to low-income developing countries under the Poverty Reduction and Growth Facility (formerly the Enhanced Structural Adjustment Facility) is made available in the form of low-interest loans with extended maturity periods.

¹ The special drawing right (SDR) is an international reserve asset created by the IMF and allocated periodically to its members as a supplement to their foreign currency and gold reserves. The SDR is also the standard unit of account for the IMF’s operations. It represents a weighted basket of four major currencies: the US dollar, the Japanese yen, the pound sterling and the euro. At the end of 2002 the exchange rate was SDR 1 = C\$2.15.

Canada's Priorities at the IMF

Global Economic and Financial Stability

Recent emerging market financial crises have underscored the need to strengthen the global financial architecture—the global institutions and rules that govern international economic and financial cooperation. Motivated by the increased role of private capital flows in the global economy and the lessons drawn from recent financial crises, the IMF has been engaged over the past several years in a process of reform. The reforms underway are aimed at making the Fund more effective in promoting greater financial stability and helping countries benefit from the opportunities of global economic integration.

In cooperation with its international partners, Canada has played an active role in identifying areas where reforms are required and taking steps to implement those reforms. To enhance the Fund's effectiveness, reforms have focused on six main areas:

- improving transparency, accountability and openness;
- strengthening surveillance and crisis prevention;
- enhancing crisis resolution;
- improving the effectiveness of IMF lending;
- safeguarding the IMF's cooperative nature; and
- strengthening support for low-income countries.

At its September 2002 meeting, the International Monetary and Financial Committee of the IMF welcomed the progress achieved over the past two years and supported continued work by the Fund in these areas.

Looking forward, a key objective for Canada is to ensure that the Fund has the tools to promote international financial stability. To meet this objective, Canada supports:

- strengthening surveillance to prevent crises through greater attention to financial vulnerabilities and increased transparency of information;
- improving the institutional capacity of countries to support strong macroeconomic frameworks and more resilient financial systems;
- enhancing crisis resolution;
- improving IMF lending to promote economic reform; and
- strengthening governance and accountability of the IMF and its members.

Canada continues to place a high priority on strengthening support for low-income countries. The IMF plays a crucial role in supporting macroeconomic stability as a key tool for poverty reduction in the poorest countries and is integrating its efforts with those of the World Bank.

The Fund's involvement in the key areas outlined above, and Canada's priorities related to these efforts, are described in more detail in the section entitled "Efforts to Promote International Financial Stability," which follows the next section.

Economic and Financial Developments in Emerging Markets

As in 2001, emerging market economies continued to be affected by uncertainties facing the global economy. However, some economies and regions fared worse than others in 2002. In particular, several Latin American countries experienced serious political and economic instability due to a combination of domestic factors, weak global demand and increased investor risk aversion.

One of the countries facing the most serious challenges in 2002 was Argentina. Following the suspension of Argentina's IMF program in late 2001, Argentina and the IMF engaged in negotiations in 2002 on the terms of a new program aimed at stabilizing Argentina's financial situation and establishing the foundations for resuming growth. But this met with little success. Argentina went into arrears on its payments to the World Bank and the Inter-American Development Bank (IDB) in late 2002. Further, Argentina was in danger of not meeting commitments to the IMF. In January 2003, Argentina and the IMF negotiated a "transitional" agreement that allowed Argentina to roll over its payments due to the IMF from January to August 2003. Following the agreement with the IMF, Argentina cleared its arrears to the World Bank and the IDB, paving the way for new lending and the unfreezing of payments from old loans to the country.

Argentina's difficulties contributed to an economic crisis in neighbouring Uruguay, which received a total of US\$2.8 billion in 2002 under a Stand-By Arrangement from the IMF. In Brazil, despite an apparent stabilization of the economy early in 2002, uncertainty over the outcome of presidential elections in October contributed to a weakening currency and increased credit risk beginning in April 2002. Amid growing market concerns over Brazil's fiscal and external debt sustainability, the IMF approved a record US\$30-billion Stand-By Arrangement in September 2002. Although the IMF program did not immediately lead to a restoration of investor confidence, financial market reaction began to stabilize following market-friendly comments made by Luiz Inácio "Lula" da Silva, who was ultimately elected President. By contrast, Mexico managed to remain relatively immune from the crises affecting its Latin American neighbours and recovered from its recession as economic prospects in the US, its main trading partner, improved somewhat in 2002.

In Turkey, which received a US\$16.3-billion Stand-By Arrangement in February 2002, macroeconomic developments were encouraging throughout most of the year. Despite some market instability triggered by earlier-than-expected elections in November, real gross domestic product (GDP) in 2002 was estimated to have grown twice as fast as projected, while year-end inflation slowed to the lowest rate in two decades. However, Turkey's high domestic debt left the economy highly vulnerable to sudden shifts in market confidence, a key issue in the final days of 2002. Doubts over the incoming government's commitment to the IMF program added to concerns over the economic consequences of a possible war in Iraq. These developments contributed to higher short-term interest rates as well as a weakening in the currency and in stock prices in early 2003.

East Asia enjoyed a strong rebound in growth in 2002, despite the dampening effect on tourism and on business and consumer confidence following the terrorist attack in Bali in October 2002. The region's recovery was broadly based, underpinned by both strong external and domestic demand. There was a revival in exports, including in the high tech sector, as well as some recovery in export commodity prices. Intra-regional exports were particularly strong, most notably to China. In general, most emerging markets in East Asia proved to be resistant to spillovers from developments in Argentina and Turkey, whether in terms of bond spreads or international capital market access. Regional equity markets were also resilient and generally outperformed markets elsewhere in the world.

In Russia real GDP growth was robust, reflecting prudent macroeconomic policies, increased capacity utilization, and a firming in world oil prices. Strong, albeit declining, balance of payments and fiscal surpluses enabled the government to repay more than US\$1.8 billion to the IMF.

IMF-Led Packages for Emerging Economies

Contributions (in billions of US dollars)

Donor	Turkey	Brazil	Uruguay
IMF (% of quota)	25.3 (2,050%)	30.0 (750%)	2.8 (694%)
Type of program and approval date	Supplemental Reserve Facility (December 2000), Three-Year Stand-By Arrangement (February 2002)*	Supplemental Reserve Facility, 15-month Stand-By Arrangement (September 2002)	Two-year Stand-By Arrangement/ Supplemental Reserve Facility (augmented in June and August 2002)**
Other international financial institutions	1.2		1.1
Total	26.5	30.0	3.9

* A three-year Stand-By Arrangement (SBA) worth US\$4 billion was originally approved in December 1999 and was augmented by US\$8 billion in May 2001. A Supplemental Reserve Facility loan worth US\$7.4 billion was approved in December 2000. A new three-year SBA worth US\$16.3 billion, which included US\$4.2 billion remaining under the previous SBA as well as US\$6.2 billion in Supplemental Reserve Facility repayments, was approved in February 2002. Net of these amounts, the new SBA was worth US\$5.9 billion.

**A two-year SBA worth US\$781 million was approved by the IMF in March 2002 and was augmented by US\$1.5 billion in June 2002. Further augmentation of the program in August 2002 brought the total size of the IMF arrangement to US\$2.8 billion.

Efforts to Promote International Financial Stability

Improving Transparency, Accountability and Openness

Canada supports measures to enhance the transparency and accountability of the Fund's own operations. This reflects the view that the IMF's effectiveness depends in part on its ability to be transparent and fair in the provision of policy advice to its members, accountable for its advice and lending decisions, and open to external input and dialogue.

In September 2002 the IMF's Executive Board reviewed the transparency guidelines adopted in 2000, under which the Fund now publishes most of its own policy papers and detailed information about its operations and finances. The Board commended the significant increase in the availability of information about the Fund and its assessments of members' policies. The key initiatives include:

- Publishing more information about IMF surveillance of members, including Public Information Notices (PINs), which provide background information on a member country's economy and the IMF's assessment of the country's policies and prospects. PINs are issued at the country's request following the conclusion of the Fund's regular Article IV consultation with the country. Full Article IV staff reports are now published when the country concerned agrees. Canada's most recent PIN and Article IV report can be found on the IMF Web site at www.imf.org/external/country/can/index.htm. Over 80 per cent of IMF member countries have agreed to the publication of PINs.
- Encouraging countries to publish the "mission statements" that are prepared at the time of the IMF's annual Article IV consultations with member countries. Prior to the preparation of the staff's report to the Executive Board, the IMF mission often provides the country's authorities with a statement of its preliminary findings at the conclusion of its discussions with them. A number of countries, including Canada, are now releasing these statements. Canada's most recent mission statement can be found on the IMF Web site at www.imf.org/external/country/can/index.htm.
- Releasing more information about countries' IMF-supported programs and the Executive Board reviews of these programs. The Fund has adopted a policy establishing a presumption in favour of publication of Letters of Intent and other documents that underpin Fund-supported programs. Nearly all policy intention documents of countries requesting Fund financial assistance are published and more than half of staff reports on Article IV consultations and on the use of Fund resources are published by the voluntary decision of country authorities.
- Publishing staff papers on key policy issues and issuing PINs of the Board discussions of these papers. In addition, the Fund is increasingly posting draft papers on important policy issues on its Web site so that the views of civil society can be taken into account. As well, more financial information is being released about the IMF, including the sources of financing for IMF lending (the quarterly financial transactions plan).

- Providing the public with substantially expanded access to the Fund's archival material.

The Fund is also working to deepen its understanding of international capital markets and financial flows. In 2001 it established the International Capital Markets Department in order to enhance its ability to identify crises early enough to address them effectively. The new department will also strengthen the Fund's ability to help countries gain access to international capital markets, an important step in helping the poorest countries make a breakthrough in poverty reduction. The department's research is summarized quarterly in a new publication, the *Global Financial Stability Report*. In addition, the Capital Markets Consultative Group was established to promote a better dialogue between member countries and private investors and creditors.

With respect to accountability and openness, the IMF has established the Independent Evaluation Office (IEO) to undertake objective assessments of the IMF's operations, policies and programs. The IEO operates independently of IMF management and at arm's length from the Fund's Executive Board.

- The IEO's work program is developed following extensive consultations with government authorities, non-governmental organizations (NGOs), members of the academic community and representatives of the financial sector, as well as the staff, management and Executive Board of the IMF.
- The IEO consults extensively with external stakeholders in deriving the detailed terms of reference for each study and provides further opportunities to comment when the completed evaluation reports are made public.
- The IEO is now operational and in 2002 produced its first evaluation on the prolonged use of Fund resources. The evaluation was recently discussed by the IMF's Executive Board and the IMF will follow up on the IEO's recommendations in early 2003.
- Two more evaluations are underway, on fiscal adjustment in IMF-supported programs and the role of the IMF in three recent capital account crisis cases (Brazil, Indonesia and Korea).

Strengthening Surveillance and Crisis Prevention

Making Surveillance More Effective

Through its surveillance role, the IMF monitors economic and financial developments and policies in member countries and at the global level. Fund surveillance is critical, as it can identify emerging problems and policy imbalances before they become crises. Improved surveillance at the IMF—leading to better information for sound economic analysis, including better pricing of risk, which leads to more stable capital flows—is central to crisis prevention.

The IMF completed a comprehensive review of surveillance in 2002.

The review noted that in light of large-scale private capital flows, the IMF has shifted the nature and scope of its surveillance. In recent years the IMF has:

- sharpened its focus on macroeconomic policy, capital flows and structural issues that have an impact on macroeconomic stability, particularly in the financial sector, and on exchange rates;
- developed new analytical tools for assessing external and financial sector vulnerability that will help countries assess reserve adequacy, manage their reserves, and monitor and manage their debt so as to prevent crises;
- made more effective use of the expertise of the World Bank and other institutions on relevant structural issues; and
- promoted greater transparency and information flow, for both member policies and the Fund's own activities.

Canada supports further efforts to strengthen surveillance by encouraging comprehensive and candid analysis of risks and vulnerabilities to improve program design and outcomes. In particular, it supports improving the framework for assessing the debt sustainability of countries to help diagnose potential debt servicing problems earlier.

Strengthening Institutional Capacity

The Fund is also working with other members of the international community on initiatives designed to improve the institutional capacity of countries to support strong macroeconomic frameworks and more resilient financial systems. These initiatives, which complement the Fund's surveillance framework, include work on standards and codes, data provision, strengthening financial sectors, and technical assistance.

Implementation and Assessment of International Codes and Standards

To help improve economic policy making and strengthen the international financial system, the international community has called upon the IMF and other standard-setting agencies to develop standards and codes covering a wide range of economic and financial areas. In this effort, the Fund is responsible for its core areas of expertise. To date the Fund has adopted a data dissemination standard, a code on fiscal transparency and a similar code with respect to monetary and financial policies.

Implementation is being encouraged, among other things, through the provision of targeted technical assistance in accordance with countries' domestic priorities and circumstances.

There is a general consensus that the IMF has a key coordinating role in assessing observance of codes and standards through its Reports on the Observance of Standards and Codes (ROSCs), as well as through the joint IMF-World Bank Financial Sector Assessment Program (FSAP). Recent developments regarding FSAPs are covered in the "Joint Issues" section.

The Fund has developed a modular approach to ROSCs whereby comprehensive assessments of members' adherence to a range of internationally recognized standards can be built up over time, standard by standard. ROSCs summarize the extent to which countries observe these standards, focusing primarily on the areas of direct operational concern to the IMF, such as data dissemination and fiscal transparency. ROSC modules for the financial sector are now being derived as a by-product of the FSAP process. Canada was the first country to publicly release as a ROSC the assessment of compliance with international standards conducted during its FSAP. Canada has undertaken ROSCs in the areas of banking and insurance supervision, fiscal policy transparency, monetary and financial policy transparency, payments systems and securities regulation. Overall, as of the end of 2002, close to half of the IMF's 184 member countries had completed at least one ROSC module.² In an article published in the summer of 2002, Fitch Ratings reported a significant relationship between publication of ROSCs and changes in sovereign ratings over the past three years, suggesting a positive impact of compliance with standards and transparency on perceptions of creditworthiness.

Strengthening Financial Sectors

The financial crises experienced by emerging market economies in recent years highlighted the critical importance of concerted action to strengthen the international financial system. In recent years the Fund has developed a comprehensive approach to promoting the stability of members' domestic financial sectors as an element of efforts to safeguard the stability of the international system (the main developments in this area are covered in the "Joint Issues" section).

In addition, the IMF is involved in international efforts on financial abuses that threaten the integrity and stability of the international financial system. In particular, the Fund has:

- expanded its anti-money laundering work, including through FSAPs, to cover legal and institutional frameworks;
- extended its involvement beyond money laundering to efforts aimed at countering terrorist financing;
- accelerated its program of offshore financial centres, and undertaken onshore assessments in the context of the FSAP;
- helped countries identify gaps in their anti-money laundering and anti-terrorist financing regimes in the context of voluntary Article IV questionnaires;
- enhanced its collaboration with the Financial Action Task Force to develop a mutually acceptable global standard on anti-money laundering; and
- intensified its provision of technical assistance to enable members to implement the agreed international standards and extend it to include help for the creation of financial intelligence units.

² Canada's ROSCs can be found on the IMF Web site at www.imf.org/external/np/rosc/rosc.asp#c.

At its meeting in September 2002, the International Monetary and Financial Committee welcomed the actions taken by many countries to combat money laundering and the financing of terrorism and urged countries that have not fully responded to do so urgently. The Committee also commended the substantial progress made by the Fund and the World Bank in advancing the Fund's action plan. In November 2002 the Fund:

- added the Financial Action Task Force recommendations on anti-money laundering and the financing of terrorism to the list of standards and codes for which ROSCs are undertaken in the context of the IMF-World Bank FSAP framework.
- approved a 12-month pilot project of anti-money laundering and terrorist financing assessments and accompanying ROSCs to be undertaken by the IMF, World Bank and other bodies; and
- adopted a comprehensive assessment methodology developed in collaboration with the World Bank and the Financial Action Task Force.

Technical Assistance

In addition to its policy advice and financing, the IMF provides technical assistance to member countries in its areas of expertise—including macroeconomic policy, monetary and foreign exchange policy and systems, fiscal policy management, external debt and macroeconomic statistics. It has been agreed that technical assistance should play a central role in supporting the work of the IMF in crisis prevention and management, debt relief and poverty reduction, and capacity building in low-income and transition countries.

Since the demand for IMF technical assistance normally exceeds the resources available, the IMF takes a number of considerations into account in setting priorities for country requests. Under guidelines approved in 2001, priorities for technical assistance are set in accordance with the IMF's core areas of specialization, its main program areas and its key policy initiatives, which will enable a more systematic alignment of resource commitments with institutional priorities.

In recent years the IMF has adopted a regional approach to the delivery of technical assistance and training. The IMF already operates two regional technical assistance centres, in the Pacific and the Caribbean. As part of its new Africa Capacity-Building Initiative, the Fund increased its technical assistance to the African continent while focusing it more squarely on capacity building. Under this Initiative, the IMF is establishing regional African technical assistance centres (AFRITACs) to provide capacity-building assistance through a team of resident experts, supplemented by short-term specialists in the core areas of the IMF's expertise. The East AFRITAC opened in October 2002.

Enhancing Crisis Resolution

One of the IMF's primary goals is to reduce the frequency and severity of international financial crises. Despite its crisis prevention efforts, however, financial crises will still occur. The IMF is therefore engaged in the search for possible reforms to improve its capacity to manage and resolve financial crises.

The Fund is focusing on four areas:

- strengthening the assessment of a country's debt sustainability;
- improving the clarity and predictability of the Fund's policy on access to its resources;
- clarifying the policy on Fund lending into sovereign arrears to private creditors; and
- improving the legal framework for sovereign debt restructuring.

Improving Debt Sustainability Analysis

The IMF is strengthening its framework for assessing the ability of countries to carry debt. A strengthened framework should help diagnose potential debt servicing problems earlier and inform the design of economic programs. It is expected that the framework will lead to more credible debt sustainability assessments. Canada strongly supports rigorous debt sustainability analysis to increase the probability of success of Fund programs. This includes testing the robustness of programs to a range of different assumptions about key economic variables, such as interest and growth rates.

Clarifying Access Policy

In addition, the IMF is working with its membership to establish clearer rules for determining exceptional access to its resources (i.e., loans that are larger than what is normally allowed under IMF lending rules) for countries that face financial crisis. Greater clarity will help shape the expectations of members and markets alike, provide a benchmark for decisions regarding program design and access, safeguard the IMF's resources, and ensure uniformity of treatment of members. In September 2002 the IMF's Executive Board endorsed the following criteria that would, at a minimum, need to be met to justify exceptional access for member countries facing a capital account crisis:

- the member is experiencing exceptional balance of payments pressures on the capital account resulting in a need for Fund financing that cannot be met within normal limits;
- a rigorous analysis indicates a high probability that the debt will remain sustainable;
- the member has good prospects of regaining access to private capital markets within the time Fund resources would be outstanding, so that IMF financing would provide a bridge; and

- the policy program of the member country provides a reasonably strong prospect of success, based on both the member's adjustment plans and its institutional and political capacity to implement that program.

The Board also expressed support for strengthening procedures for decision making on exceptional access proposals, including:

- increasing the burden of proof required in program documents by requiring more extensive justification of the level of access, a rigorous analysis of debt sustainability, and an assessment of the risks to the IMF arising from the exposure and the effect on the IMF's liquidity position;
- formalizing early Executive Board consultation on the status of negotiations in exceptional access cases; and
- requiring *ex post* evaluation of programs of exceptional access.

Clarifying the Policy on Lending Into Arrears

The IMF also reviewed the conditions under which it provides resources to member countries that are in arrears to private creditors. Under its arrears policy, the Fund can "lend into arrears" in cases where a debtor member needs more time to reach agreement on a financial restructuring package with private creditors. That is, the Fund stands ready to provide resources to members that are in arrears to private creditors, when prompt support for the successful implementation of the member's adjustment program (including appropriate policy reforms) is essential, and the member is making a good faith effort to reach an agreement with its creditors. The review highlighted the importance of striking an appropriate balance between the need to promote effective communication between a debtor and its creditors during the restructuring process, and the need to retain flexibility to address the diversity of individual country circumstances.

Strengthening the Legal Framework for Sovereign Debt Restructuring

Canada has long been a strong advocate of the need to put in place tools and mechanisms to facilitate the more timely, orderly restructuring of unsustainable sovereign debts. The IMF has an important role to play in this regard, given its position at the centre of the international financial system and, more importantly, its ability to help facilitate a more orderly and cooperative resolution of international payment problems.

For this reason, Canada welcomed the IMF management's proposal to develop a sovereign debt restructuring mechanism, analogous to domestic bankruptcy regimes. Over the past year the IMF has worked intensively on the proposal, which has evolved significantly to address concerns expressed by various interested parties. Consistent with directions from the International Monetary and Financial Committee (IMFC) in September 2002, the Fund is working towards setting out a concrete proposal at the Fund's spring 2003 meeting. The IMFC will review this proposal at the meeting and determine the next steps to be taken.

There is also a need to continue to improve the existing approach to crisis management. Canada attaches priority to strengthening the crisis management framework in the short term by establishing credible limits to official financing for all but exceptional cases, and developing clearer guidelines for lending into arrears. In addition, Canada supports international efforts to promote the more widespread adoption of contingency clauses, such as collective action clauses, in sovereign debt contracts, as these complement the other initiatives by facilitating the more timely, orderly restructuring of sovereign debt. Work is also proceeding on Codes of Conduct for sovereign debt renegotiation.

Improving IMF Lending

A major focus recently has been to examine how resources can be used more efficiently to meet the needs of member countries in promoting economic reform. To that end, the IMF has adopted new guidelines on the conditions attached to its loans, streamlined the structure of its lending facilities, and examined the issue of prolonged use of IMF resources.

Focusing Conditionality and Fostering Ownership

An important feature of IMF arrangements is the “conditionality” that borrowing countries undertake to correct their underlying balance of payments problems and to restore their ability to repay the Fund. Over time conditionality had broadened in scope and become more complex, leading to concerns about its impact and effectiveness. In the fall of 2002 the IMF approved new guidelines on the design and implementation of conditionality in Fund-supported programs. The new guidelines represent the outcome of a comprehensive review of conditionality that was launched in 2000. The new guidelines, the first revision since 1979, were developed following an extensive process of consultation with the public.

The review was undertaken with the aim of streamlining and focusing conditionality so as to enhance the success and effectiveness of Fund-supported programs and promote national ownership of reforms. The new guidelines emphasize the need to focus conditionality on policies that are critical to achieving the macroeconomic objectives of programs. The guidelines are based on several interrelated principles, including national ownership of reform programs, parsimony in the application of program-related conditions, effective coordination with other multilateral institutions, and clarity in the specification of program conditions.

Conditions will normally consist of macroeconomic and structural measures that are within the Fund’s core areas of responsibilities. Where structural reforms that are critical to a program’s success lie outside the Fund’s core areas, the Fund should work with the World Bank and other international financial institutions, which have a comparative advantage in the design and monitoring of these measures. A key aspect is that the country should

take primary responsibility for its own policies and that conditionality, if well designed and established through a mutually acceptable process led by the member, can strengthen and promote ownership. The challenge now is to enhance IMF lending through effective implementation of the new guidelines.

Prolonged Use of IMF Resources

In September 2002 the IMF's Independent Evaluation Office (IEO) published its first evaluation on prolonged use of IMF resources in response to concerns that prolonged use is inconsistent with the Fund's traditional mandate of providing temporary balance of payments support and undermines the effectiveness of IMF-supported programs. For the Fund, prolonged users account for a substantial share of the Fund's resources, with a potential impact on the revolving character of Fund resources and the IMF's lending ability.

The IEO evaluation showed that prolonged use (defined as being under a Fund-supported program for 7 or more years in a 10-year period) is a persistent problem, with significant adverse consequences for both the borrowing country and the IMF. For prolonged users, their programs had a negative impact on growth and achieved less fiscal adjustment compared to "temporary" users of Fund resources. According to the IEO, the perception that IMF resources would be available over the longer term, despite policy slippages, may have weakened incentives for them to take decisive action to deal with some problems.

The study found that the increase in prolonged use is partly a reflection of a broadening of the rationale for the IMF program involvement beyond achieving short-term balance of payments adjustment to help developing countries—particularly the poorest—achieve sustainable growth. Also contributing to prolonged use were design and implementation difficulties with programs that attempted to address deep-seated problems that require many years to resolve. The report makes recommendations to diminish the incentives for prolonged use, including by enhancing program effectiveness, and to reduce its adverse consequences. The IMF will follow up on the IEO's recommendations in early 2003.

Safeguarding IMF Resources

In 2000 the Fund adopted a multi-faceted approach to strengthening the safeguards on the use of IMF resources. Central banks of member countries making use of Fund resources will have to publish annual financial statements, independently audited in accordance with internationally accepted audit standards. If vulnerabilities are identified in a country's ability to manage its resources, including IMF resources, IMF staff will propose remedies, including measures to be implemented before further disbursements of IMF funds. In 2002 the Fund adopted safeguard assessments as a permanent feature of IMF operations.

Safeguarding the IMF's Cooperative Nature

The IMF's cooperative nature is reflected in its resource base, which is derived primarily from the quota subscriptions of member countries and the consensus-based nature of its decision-making process. If the Fund is to promote international financial stability effectively, it must have adequate resources and ensure that its quota structure and governance arrangements are representative of the membership.

Twelfth General Quota Review

Quota reviews are held every five years to assess the adequacy of IMF resources. In the context of the Twelfth Quota Review, the IMF's Executive Board held a number of discussions over the past two years but the broad support necessary for a quota increase did not exist.

IMF Lending Capacity

Better information on the activities of the IMF enhances the transparency and accountability of the institution. To provide a clearer understanding of the amount of its regular financing resources that is available for new lending, in December 2002 the IMF adopted a new method of measuring its liquidity. The new measure—the one-year forward commitment capacity—indicates the amount of quota-based and non-concessional resources available for lending to member countries.

The one-year forward capacity reflects the IMF's stock of usable resources minus undrawn balances for current lending arrangements, plus projected repayments by IMF borrowers over the coming 12 months. A prudential balance—to safeguard the liquidity of creditors' claims and to take account of a potential erosion of the resource base—is also deducted to arrive at the final forward commitment amount. At the end of 2002 the IMF's one-year forward commitment capacity amounted to SDR 54.7 billion (US\$74 billion).

How to Access Information at the IMF

A vast array of Fund information—including fact sheets, press releases, speeches, the *IMF Survey*, annual reports, world economic outlooks, staff country reports and working papers—is available on the Fund's Web site at www.imf.org. In addition, the IMF's Publications Services provides a wide variety of Fund documents on the policies and operations of the IMF, as well as world financial and economic developments:

- IMF annual reports
- *World Economic Outlook*
- *Global Financial Stability Report*
- IMF staff country reports
- *International Financial Statistics*
- *Annual Report on Exchange Arrangements and Exchange Restrictions*
- press releases
- *IMF Survey*
- publications of the Independent Evaluation Office

Publications Services is located at 700 – 19th Street N.W., Washington, DC 20431, USA Phone: (202) 623-7430; fax: (202) 623-7201. Internet e-mail address: publications@imf.org.

Strengthening Support for Low-Income Countries

The IMF is fully committed to supporting low-income members in advancing towards the United Nations Millennium Development Goals through its poverty reduction and debt relief efforts. Canada places a high priority on reducing poverty and ensuring that debt relief does indeed go to the poorest, most heavily indebted countries committed to good governance. Although the World Bank is the central institution for poverty reduction, macroeconomic stability—a key condition for achieving poverty reduction and growth—is the responsibility of the IMF. Direct anti-poverty measures are playing a central role in programs supported by the IMF through its Poverty Reduction and Growth Facility. These programs are consistent with a comprehensive, nationally owned Poverty Reduction Strategy Paper prepared by the borrowing country and are based on a process involving the participation of civil society, NGOs, donors and international institutions. This issue is covered more extensively in the “World Bank” section.

Lending Developments in 2002

A core activity of the Fund is to provide short- and medium-term financial assistance to members faced with balance of payments difficulties. The objective is to enable countries facing such difficulties to correct temporary payments imbalances with a minimum of disruption to the international monetary system. The provision of financing from the IMF, as well as the additional financing that an arrangement with the Fund often attracts from other sources, enables countries to undertake smoother economic adjustment.

At the end of 2002 the IMF had lending arrangements worth SDR 64.6 billion in place for 52 member countries (see Annex 1). Drawings under lending commitments remained at a very high level in 2002, increasing slightly to SDR 26.5 billion. The unfavourable economic and financial conditions in some economies and regions contributed to the continued high level of lending. The bulk of the non-concessional lending took place under Stand-By Arrangements. Turkey and Brazil received the largest disbursements, some of which were financed through the Supplemental Reserve Facility, the Fund's short-term lending facility that addresses crisis situations.

Table 1

IMF Resource Flows

	2001	2002
	(in SDR billions)	
Total purchases	24.6	26.5
Of which:		
Stand-By Arrangements	23.0	23.9
Extended Fund Facility	0.7	1.3
Compensatory Financing Facility	0.0	0.0
Poverty Reduction and Growth Facility	0.9	1.3
Other	0.0	0.0
Total repurchases	14.1	16.0
Net repurchases	10.5	10.5

Lending increased under the IMF's concessional facility, the Poverty Reduction and Growth Facility. No drawings were made under the Compensatory Financing Facility, one of the Fund's other special-purpose facilities.

Managing Canada's Interests at the IMF

The Minister of Finance is Canada's Governor at the IMF and is responsible for the management of Canadian interests at the Fund. The Minister exercises influence on IMF issues through Canada's Executive Director at the Fund's Executive Board, interventions at the spring and fall meetings of the International Monetary and Financial Committee, his plenary speech at

the IMF and World Bank annual meetings, and periodic meetings with the Managing Director of the Fund (the Minister's speeches are available on the Department of Finance Web site at www.fin.gc.ca). The Governor of the Bank of Canada is Canada's Alternate Governor of the IMF. The Governor also attends the Fund's spring and fall meetings.

The management of Canada's interests in the ongoing work of the IMF is the responsibility of the Executive Director, Ian E. Bennett, Canada's representative on the Executive Board. He is one of 24 Executive Directors. In addition to Canada, he represents 11 other countries (Ireland and 10 Caribbean countries), which form a constituency at the Executive Board. Of the 24 members of the current Executive Board, 12 are from developing or transition countries and 12 from industrialized countries. As the main decision-making body of the Fund, the Board normally meets three times a week.

The Department of Finance coordinates Canadian policy advice on IMF issues and Canada's operational interests in the IMF. The Bank of Canada also provides advice on IMF issues to Canada's Executive Director. Other involved government organizations include the Department of Foreign Affairs and International Trade and the Canadian International Development Agency. Within the Department of Finance, the International Trade and Finance Branch is responsible for conducting analyses and preparing advice on the policy issues and specific country programs that are brought before the Executive Board. The Department and Canada's Executive Director's office also work closely with Canada's World Bank Executive Director's office and meet frequently with Canadian NGOs.

Parliament is informed of the activities and operations of the Bretton Woods institutions through the tabling of the annual report on their operations, the communiqués of the International Monetary and Financial Committee and the Development Committee, and appearances of the Canadian Executive Directors and departmental officials before parliamentary committees.

Canada's Voting Record

Since most decisions at the Fund are taken on a consensus basis, formal votes by Governors and the Executive Board are rare. Canada attempts to influence the development of Fund policy proposals before they are brought to the Board (often through the circulation of memoranda outlining Canadian positions) or to influence other members in the course of Board discussions. But in 2002 Canada voted against an increase in the remuneration of IMF Executive Directors. Canada also abstained on a program review for Indonesia due to concerns over the deterioration in the rule of law and abstained on a request for post-conflict assistance for Burundi over concerns about the security situation.

Canada's Office at the IMF

In addition to the Executive Director, Canada's office is staffed by two Canadian advisors and two technical assistants, one of which rotates with other members of the constituency. Ireland staffs the Alternate Executive Director's position and the Caribbean countries staff a third advisor's position.

The primary responsibility of the Executive Director's Office is to represent the interests of Canada and the other members of the constituency at the Fund's Executive Board. The office participates in the Board's discussions on a wide variety of policy, operational and administrative matters, including surveillance issues and country assistance requests and reviews.

Members of the Executive Director's Office

Executive Director	Ian E. Bennett (Canada)
Alternate Executive Director	Nicolas O'Murchu (Ireland)
Advisor	Frank Vermaeten (Canada)
Advisor	Denny Lewis-Bynoe (Caribbean)
Advisor	Mark Kruger (Canada)
Assistant	Chris Faircloth (Canada)
Assistant	Charleen Adam Gust (Canada)
Administrative Assistant	Monique Chagnon (Canada)
Administrative Assistant	Catherine Byrne (Ireland)
Administrative Assistant	Liz Craib (Canada)
Phone/fax	(202) 623-7778/(202) 623-4712
Address	11-112, 700 – 19 th Street N.W., Washington, DC 20431, USA

Canada's Financial Participation

Canada's financial participation in the IMF consists primarily of its quota subscription. Canada's quota is SDR 6,369.2 million, or about 3 per cent of total quotas. Canada's quota subscription is a government asset, which is made available to the Fund partly in Canadian dollars and partly in reserve currencies, such as US dollars or SDRs. These latter non-Canadian dollar amounts continue to be part of Canada's foreign exchange reserves. As an asset, Canada's quota subscription is not recorded as an expenditure item in the budget of the Canadian government.

Only a very small portion of the Canadian dollar part of Canada's subscription is actually held in cash by the IMF. The balance is held by the Bank of Canada in the form of demand notes, which are available to the Fund in the event it needs to draw upon additional resources. Canada earns interest on its quota subscription when the Canadian dollar is used in Fund lending operations, i.e., is drawn by other member countries. In 2002 Canada received SDR 45.4 million on its net creditor position in the IMF. The net income from Canada's net creditor position with the Fund is paid into the Government of Canada's Exchange Fund Account, adding to the foreign exchange reserves.

Table 2
Canada's Financial Position in the IMF

	December 31, 2002	December 31, 2001
	(in SDR millions)	
Quota	6,369.2	6,369.2
Fund holdings of Canadian dollars	3,735.8*	4,090.8*
Reserve position in the Fund	2,633.4**	2,278.4**

* In accordance with Fund regulations, at least 0.25 per cent of Canada's quota is held by the IMF in a Canadian dollar cash deposit at the Bank of Canada. The Fund's remaining Canadian dollar holdings are in the form of non-interest-bearing demand notes, also kept by the Bank of Canada.

**This is the amount Canada is entitled to draw on demand from the IMF for balance of payments purposes. Canada's reserve position in the Fund is the result of the portion of Canada's quota subscription made available to the Fund over time in reserve currencies, the use of the Canadian dollar in Fund financial transactions with other members, and loans to the IMF under borrowing arrangements such as the General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB). As the name suggests, Canada's reserve position in the Fund is a part of Canada's official foreign exchange reserves.

At the end of 2002 Canada's holdings of SDRs amounted to SDR 528.8 million, or 67.9 per cent of Canada's cumulative allocation of SDRs. In 2002 Canada held SDRs in an amount below its allocation, and so paid net interest of SDR 6.3 million.³

Last year, in line with earlier commitments, Canada made further contributions to the IMF's Poverty Reduction and Growth Facility. The facility provides financial support on concessional terms to low-income countries facing protracted balance of payments problems. Canada's total commitment to the Poverty Reduction and Growth Facility is a loan of SDR 700 million and a grant of approximately SDR 190 million. At the end of 2002 loan payments under these arrangements totalled SDR 608.6 million of the SDR 700 million, and subsidy contributions equaled SDR 176.4 million of the SDR 190 million. In 2002 Canada received SDR 17.3 million in interest earned on loans to the Poverty Reduction and Growth Facility.

Further, Canada is a participant in a financing arrangement established to supplement the Fund's regular resources in the event of financial crises, the NAB, which was not activated in 2002 (see the box on the next page). Canada is also a participant in the GAB, an earlier credit arrangement established by the G-10. Canada's GAB commitment is the equivalent of SDR 892.5 million. This line of credit was not used in 2002.

³ When a member's holdings of SDRs is greater (lesser) than its cumulative allocation, that member (the Fund) receives interest on the difference.

New Arrangements to Borrow

The following are the main features of the NAB, which came into force in 1998:

- Participating countries will make loans to the IMF when supplementary resources are needed to forestall or cope with an impairment of the international monetary system, or deal with an exceptional situation that poses a threat to the stability of the system.
- Twenty-five countries have agreed to lend up to SDR 34 billion (about C\$68 billion) to the Fund in case of financial emergencies.
- Canada's share in the arrangement is 4.1 per cent, in the form of a commitment to provide non-budgetary loans to the IMF from its international reserves.
- The NAB does not replace the GAB, which remains in force. However, the NAB will be the first and principal recourse of the IMF if supplementary resources are needed.

Challenges Ahead

A key challenge for the Fund is to ensure that it meets the needs of an increasingly integrated global economic system. The evolution of the Fund's place in the international financial system must continue to reflect changes in the world economy. In particular, there is a need to assess the role of the Fund in a world of large-scale private capital flows. To meet these challenges:

- The Fund should continue to work to strengthen surveillance to prevent crises, including through improved debt sustainability analysis.
- The Fund needs to continue its efforts to improve its capacity to manage and resolve financial crises. In addition to clarifying the rules for exceptional access to Fund resources, further work with the international community is required to implement an operational framework for improved private sector involvement in crisis management, including through mechanisms to facilitate the more orderly reduction of unsustainable sovereign debts.
- The Fund should work to make IMF quotas more reflective of developments in the world economy and ensure that Fund governance is representative.

WORLD BANK

Membership in the World Bank (the Bank) affords Canada an important voice on key development issues in the world's premier multilateral development institution. With 184 members,⁴ and loans and credits outstanding to 143 developing and transition member countries in fiscal year (FY) 2002⁵ totalling US\$218 billion, the Bank has a far-reaching impact on global development and poverty reduction. It provides policy advice and financial support crucial to improving borrowing members' longer-term development and poverty reduction prospects. It also assists members by providing concessional assistance and improved access to world financial markets for development purposes.

Canada's capital share of about 3 per cent gives it a seat on the Bank's Executive Board and on the Development Committee of the Boards of Governors of the Bank and the IMF. Canada has the opportunity at the Executive Board, in dialogue with Bank staff, and at the annual meetings of the Board of Governors (and the Development Committee) to provide direct input into the formulation of Bank policies and operational decisions. Canada and other shareholders help to guide the Bank in improving developing countries' economic, social and environmental performance. Through its engagement with the Bank, Canada's influence in developing countries can be leveraged beyond what can be achieved through bilateral programs. For example, Canada has played a leading role in the Bank's discussion of the implementation of the heavily indebted poor country debt relief initiative, in shaping the institution's response to post-conflict countries, and in its efforts to assist developing countries combat terrorist financing and money laundering.

Bank membership also provides the Canadian government with access to the institution's research and policy work, which enriches our own understanding of international development. The Canadian International Development Agency (CIDA), for example, is able to draw on Bank analytic and technical expertise in order to gain a more comprehensive understanding of the social and economic policy environments that are conducive to effective aid delivery. CIDA is also able to leverage its own resources with those of the Bank through participation in a growing number of partnerships with, and in global programs led by, the Bank. Finally, Canada's membership allows Canadian companies and individuals substantial procurement opportunities—in 2002 they provided goods and services worth US\$130 million under Bank-financed contracts.

⁴ East Timor joined the World Bank on July 23, 2002, becoming the institution's 184th member.

⁵ The Bank's fiscal year begins on July 1 and ends June 30 the following calendar year.

Overview of Operations in 2002

In FY 2002 the Bank committed loans and credits of US\$19.5 billion to 95 developing and transition countries (see Annex 2). The International Bank for Reconstruction and Development (IBRD) committed US\$11.5 billion in new loans in FY 2002, or roughly US\$1 billion more than in FY 2001. Bank concessional lending through the International Development Association (IDA) increased to US\$8 billion in FY 2002, compared to US\$6.8 billion in FY 2001.

Geographic and Sectoral Focus of Lending

Reflecting significant adjustment lending to Turkey, new IBRD lending commitments in FY 2002 were highest in Europe and Central Asia. IBRD lending to this region reached US\$4.9 billion, or 42 per cent of all IBRD loans in FY 2002. Turkey was the largest IBRD borrower in FY 2002, accounting for US\$3.6 billion in commitments. The next largest area of IBRD concentration was the Latin America/Caribbean region, where the institution committed US\$4.2 billion, or 37 per cent of its financing. The East Asia/Pacific region accounted for US\$1 billion, or 9 per cent, of new IBRD lending. South Asia accounted for US\$900 million, or 8.5 per cent of IBRD lending, with India alone accounting for 7.8 per cent. The Middle East/North Africa region accounted for US\$450 million, or 4 per cent of IBRD commitments.

In FY 2002 Africa accounted for the largest share of IDA lending—although, at 47 per cent, the level fell slightly below the 50-per-cent indicative target of new IDA commitments set by IDA donors. South Asia accounted for 32.5 per cent of IDA commitments in FY 2002. The East Asia/Pacific region and Europe/Central Asia region accounted for 9 per cent and 8 per cent respectively.

The Bank's strong commitment to investing in people is reflected in the sectoral breakdown of both IBRD and IDA lending operations. Support for social sector investments, in particular, remains a high priority. The areas of social protection, social development and rural development accounted for roughly 30 per cent of total World Bank commitments in FY 2002. Recognizing that good governance and strong institutions are key elements of development and poverty reduction, there was a significant increase in FY 2002 in Bank support for public sector governance. Approximately 22 per cent of total Bank commitments and over 30 per cent of IBRD commitments during the year were dedicated to this area. This is up sharply from FY 2001 and the average of the mid-1990s, when the Bank lending shares were 12 per cent and 7.3 per cent respectively. These increased commitments reflect the stronger attention that the Bank is paying to strengthening public expenditure management, financial management, anti-corruption measures and civil service reform.

Non-Lending Operations

In FY 2002 the Bank continued its strong focus on non-lending services in order to enhance the developmental effectiveness of its operations. The Bank provides a wide range of advisory, analytical, training and knowledge-related services in support of building domestic capacities. Through its non-lending activities, the Bank provides valuable policy advice that can bolster the effectiveness of its investment and adjustment lending.

How the World Bank Group Works

The World Bank Group is made up of four complementary but distinct entities: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA) and the International Finance Corporation (IFC).

The IBRD and IDA (together commonly known as the World Bank) provide funding for investment projects and for adjustment—or economic and sector reform—operations. The IBRD lends on non-concessional terms (charging an interest rate that is slightly above its own borrowing costs) to better-off borrowing members, while IDA provides 35- and 40-year interest-free credits to the poorest borrowers. Since July 2002 IDA also provides grants for certain specific purposes. IDA is the largest source of development finance for the world's poorest countries. The IBRD raises its funds primarily on international markets on the strength of its triple-A credit rating. In effect, the IBRD on-lends to borrowing countries at a rate of interest much lower than that which they could secure on their own borrowings. IDA, on the other hand, receives grant funding from donors, loan repayments and annual allocations from IBRD net income. As of June 2002 outstanding IBRD loans and IDA credits amounted to US\$121.6 billion and US\$96.4 billion respectively.

The IFC supplements the activities of the IBRD and IDA by undertaking investments on commercial terms in productive private sector enterprises. The IFC provides such services as direct private sector loans, equity investments, resource mobilization and technical assistance. As of June 2002 the total outstanding loans and equity investment of the IFC were equivalent to US\$15 billion. MIGA's mandate complements that of the IFC: it promotes private foreign direct investment in developing countries, primarily by providing insurance against non-commercial risk, such as the risk of currency inconvertibility during civil conflict. MIGA's outstanding portfolio as of June 2002 amounted to US\$5.3 billion.

Each of the 184 shareholders has a seat on the Board of Governors of the World Bank. Most decisions on policy, operational and administrative issues, however, have been delegated to the 24-member Executive Board. Membership on the Executive Board is evenly split between developed and developing countries.

Strengthening the World Bank's Poverty Reduction Focus

Focusing Operations on the Millennium Development Goals

The recognition that the Millennium Development Goals (MDGs) can be achieved only through empowerment of the poor underpins the Bank's approaches to countries and sectors. The MDGs now form the cornerstone of the Bank's strategic planning and operational priority setting. The Bank is also working closely with the United Nations system and the Organisation for Economic Co-operation and Development in strengthening international monitoring of the progress being made towards achieving the MDGs.

A key task for the Bank in this exercise will be to develop a framework for benchmarking performance among both developing countries and donor agencies. The Bank, together with the IMF and the UN system, is strengthening its country and thematic databases. Publicly available data will be posted on the Development Gateway (www.developmentgateway.org). As national capacity in gathering and assessing statistics is critical to efforts for monitoring progress towards the MDGs, in 2002 the Bank increased its focus on assisting developing countries develop their national statistical capacity.

Millennium Development Goals

At the Millennium Summit in September 2000, world leaders adopted specific development goals that can be monitored. Subsequently, the United Nations published eight Millennium Development Goals in the September 6, 2001, report of the UN Secretary General on the road map towards implementing the UN Millennium Declaration. The eight goals are:

- to halve, between 1990 and 2015, the proportion of people living on less than one US dollar a day; and to halve, between 1990 and 2015, the proportion of people suffering from hunger;
- to ensure that, by 2015, all children can complete primary schooling;
- to eliminate gender disparity in primary and secondary education, preferably by 2005, and at all education levels no later than 2015;
- to reduce by two-thirds, between 1990 and 2015, the mortality rate for children under 5 years old;
- to reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio;
- to have halted and begun to reverse, by 2015, the spread of HIV/AIDS; and to have halted and begun to reverse by 2015 the incidence of malaria and other major diseases;
- to integrate the principles of sustainable development into country policies and programs and to reverse the loss of environmental resources; and to halve, by 2015, the proportion of people without sustainable access to safe drinking water; and
- to develop a global partnership for development including through trade openness and debt relief.

The Bank is also working in partnership with developing countries, other aid agencies and civil society more directly to design and implement initiatives to support developing countries in their efforts to reach specific MDGs. These efforts include “fast-track” initiatives that will target Bank and donor resources on countries demonstrating strong commitment to improving social sector programs. Fast-track initiatives, originally pioneered for the education sector, are now being extended to health, nutrition and population.

Continued Global Uncertainty

Financial uncertainty and weak investor confidence have contributed to slower economic growth throughout much of the developing world. Economic growth in many developing country economies remained modest in 2002, falling slightly to 2.8 per cent from an average GDP growth rate of 2.9 per cent in 2001.

Economic results, however, varied by region. Despite rising commodity prices, economic growth in Sub-Saharan Africa will remain constrained by drought, civil war and the spreading HIV/AIDS epidemic. While there are prospects for a modest recovery in South Asia, the main challenges for India and Pakistan in ensuring longer-term growth will be fiscal consolidation and trade liberalization.

Much stronger economic growth in East Asia and Eastern Europe in 2002 coincided with very weak performance in Turkey and Latin America, particularly in Argentina. Indeed, reacting to growing economic and financial instability in Latin America posed a particular challenge for the Bank in FY 2002 and likely will continue to be a major focus of Bank operations in the near future. The Bank committed US\$735 million to Argentina in FY 2002. However, under the Bank’s adjustment lending guidelines, with Argentina off track on its IMF program throughout much of 2002, the Bank was unable to provide new adjustment lending. All lending was temporarily suspended in December 2002, when arrears on Argentinian repayments to the Bank exceeded 60 days. The clearing of arrears by the Argentinian government permitted a resumption of lending in January 2003.

In August, with the Uruguayan economy feeling strong ripple effects from the Argentine financial crisis, the Bank worked closely with the international community to assemble an assistance package. On August 8, 2002, the Bank’s Executive Board approved a package that will see Bank financing to Uruguay increased to US\$550 million over the next two years.

The Bank is also working closely with the new Brazilian government to help it address financial market volatility and to support its reform agenda. Bank President James Wolfensohn has suggested that, through to December 2003, the Bank could provide up to US\$2 billion in financing beyond the lending level established in the current Brazil Country Assistance Strategy.

As mentioned above, in FY 2002 the Bank also provided substantial financing to Turkey to assist that country during a period of financial difficulty. Turkey, Argentina and Brazil together represent roughly 18 per cent of the IBRD’s outstanding loan portfolio. The recent deterioration in their creditworthiness has led to an increase in provisioning that could reduce future IBRD net income.

Stronger Focus on Country Ownership

The Bank continues to assimilate into its operations the principles of country ownership that underpin the Comprehensive Development Framework (CDF).⁶ Under the broad CDF approach, “homegrown” Poverty Reduction Strategy Papers (PRSPs)⁷ are being developed by an increasing number of poor countries as the driver of their national development plans and poverty reduction policies. Increasingly, PRSPs are also driving operations of the Bank and Fund in the poorest countries.

PRSPs are a continuous and evolving process and many developing country governments have relied on extensive Bank support in this initial stage of design and implementation. A new multi-donor US\$20-million PRSP Trust Fund, coordinated by the Bank and the United Nations, was established in 2002 to support capacity building in low-income countries implementing poverty reduction strategies.

In early 2002 the World Bank and IMF undertook a comprehensive review of the PRSP process. The results of this review were presented at the April 2002 meetings of the International Monetary and Financial Committee and the Development Committee and an updated progress report was presented to Governors in the fall of 2002. Results show that PRSPs are becoming a valuable tool enhancing development outcomes. However, it is also clear that more attention needs to be paid to implementation challenges and to addressing bottlenecks in the process. These challenges include enhancing stakeholder participation, improving the link between PRSPs and national policy-making processes and improving the coordination and harmonization of donor support.

Adjustment Lending

One of the consequences of the shift in Bank operations to support country-owned development and poverty reduction strategies has been a high level of adjustment lending in overall Bank financing. Adjustment loans are used to support sector-wide reforms and restructuring. Since the early 1990s the share of adjustment lending in overall Bank lending has consistently been above the 25-per-cent notional level established by the Executive Board. In years when the Bank has been active in supporting major borrowers that are experiencing severe financial difficulties, adjustment lending is especially high. Adjustment operations accounted for 50 per cent of overall World Bank lending in FY 2002, compared to 33 per cent in FY 2001.

⁶ The CDF aims to better balance the social, environmental and governance aspects of development with financial and structural considerations. Under the CDF, the Bank and other development players will take a longer-term view of development and work in closer partnership with developing countries, civil society and the private sector in supporting country-led development programs. The CDF also recognizes the need for developing country ownership of their development agendas, a strong focus on development results and the need for greater coordination and partnership among all development actors.

⁷ PRSPs were originally conceived as a comprehensive policy mechanism to link heavily indebted poor country debt relief more closely with poverty reduction initiatives. They are rapidly evolving into the primary statement of the development strategy of the world's poorest countries.

Poverty Reduction Support Credits (PRSCs), introduced in May 2001, represent a new type of adjustment operation that provides budgetary financing in support of the implementation of PRSPs. PRSCs ease administrative burdens on borrowers and encourage harmonization of donor practices. PRSCs are used in cases where clients have transparent budgetary and fiduciary processes and strong PRSPs in place. PRSCs have been approved for Burkina Faso, Uganda, Vietnam and Albania.

Adjustment lending is also often used to provide support to middle-income and emerging market economies that are experiencing acute financial problems. In FY 2002 Turkey, Brazil, Colombia and Argentina were recipients of significant commitments of adjustment lending. In sectoral terms, most of the Bank's adjustment lending supports public sector management, financial sector reforms and improved governance. Adjustment lending has been much higher in the case of the IBRD than of IDA. In FY 2002, 65 per cent of IBRD commitments were in the form of adjustment loans, compared to 25 per cent for IDA.

Monitoring and Evaluation

The Bank's independent Operations Evaluation Department (OED) has concluded that the institution's system of project monitoring could be improved. OED judged that many of the problems stem from both limited borrower capacity and a lack of incentives and guidelines for Bank staff. At the International Conference on Financing for Development held in Monterrey, Mexico, in March 2002 and again at the two Development Committee meetings in 2002, Ministers highlighted the importance of an enhanced focus on results in helping both developing countries and donors design and implement poverty reduction strategies. In response, Bank management has embarked on a process of developing a more comprehensive approach to measuring and monitoring development results. The Bank's approach is focused both on tying its own performance benchmarks more closely with the development priorities of individual PRSPs and on increasing Bank support for statistical capacity within developing countries. By the end of 2002 the Bank had launched five Country Assistance Strategy (CAS) pilots (in Brazil, Cambodia, Cameroon, Sri Lanka and Ukraine) and is working in nearly 40 other client countries to develop and test a results-based CAS design. Management is aiming to adopt this approach in all borrowing countries starting in July 2003.

Assessing Poverty

To ensure that poverty reduction remains at the heart of the Bank's operations, the Poverty Reduction and Economic Management Network (PREM) was established in 1997. PREM undertakes country-specific poverty assessments and advises Bank country teams on the poverty reduction impacts of emerging policies, programs and individual projects. PREM has concluded country poverty assessments that cover a large majority of the world's poor. The quality of poverty data, however, is uneven, and PREM continues to work to improve the consistency of its assessments.

The World Bank's Response to the HIV/AIDS Pandemic

HIV/AIDS is no longer just a public health issue; it is a development crisis. Of the approximately 40 million people around the globe who are living with HIV/AIDS, 95 per cent are in developing countries. The high infection rates in developing countries are killing or incapacitating many of the most productive individuals and threaten economic and social stability. One third of those infected in developing countries are in the 15–24 age bracket. AIDS is now the leading cause of death in Sub-Saharan Africa and among males in the Caribbean. In the hardest-hit countries, HIV/AIDS threatens to reverse the development gains achieved over the past 30 years.

Most of the Bank's HIV/AIDS programming is delivered through IDA, which has mainstreamed HIV/AIDS into its work. Since September 2000 IDA's Multi-Country HIV/AIDS Program (MAP) for Africa has made US\$500 million available to governments to combat HIV/AIDS. While IDA initially expected it would take three years to commit the MAP funding, high demand led to the commitment of virtually all of the MAP facility within 15 months. Another 15 projects are being funded through a second US\$500-million MAP loan (MAP2), which was approved in February 2002. In addition to MAP2 funding, in FY 2002 Bank support for HIV/AIDS operations in Africa amounted to over US\$300 million, and an additional US\$155 million was committed for projects in the Caribbean region. The Bank is heavily involved in international efforts to combat the disease. The Bank is one of eight co-sponsors of UNAIDS (which spearheads the UN's response to the crisis). The Bank is also fostering private-public partnerships designed to accelerate the development of an HIV/AIDS vaccine for use in developing countries. The Bank is an active partner in the Global Fund to Fight AIDS, Tuberculosis, and Malaria that was launched at the G-8 Summit in Genoa. The Bank, along with UNAIDS and the World Health Organization, hold ex-officio (non-voting) seats on the Board of the Global Fund. The Bank is also the Trustee of the Global Fund, with responsibility for the collection, investment and management of funds, disbursement of funds to countries and programs, and financial reporting.

During negotiations for the 13th replenishment of IDA (IDA13), IDA donors agreed that all IDA financing for HIV/AIDS projects in the poorest IDA countries (those that do not also have access to IBRD financing) will be provided on a grants basis. For richer IDA countries, donors agreed that 25 per cent of IDA financing for HIV/AIDS projects will be provided on a grants basis.

The IDA13 Replenishment—Enhancing Support for Country Ownership

In July 2002, 39 donor governments concluded negotiations on the 13th replenishment of the International Development Association (IDA13). Their report was endorsed by Bank Governors at the institution's annual meeting in September 2002. The IDA13 period runs from July 2002 to June 2005. The IDA Deputies' Report, which serves as the IDA13 policy framework, is available on the Bank's Web site.

Donors agreed to a total IDA13 replenishment of SDR 18 billion (roughly equivalent to US\$23 billion). Donors will provide about 60 per cent of this amount. The remainder will be funded from repayment flows on outstanding IDA loans and net income transfers from the IBRD. Canada agreed to maintain its 3.75 per cent donor share during the IDA13 period, which equates to C\$690.4 million. This amount will be paid in three equal annual installments over the 2003–2005 period. This contribution makes Canada the seventh largest IDA donor.

In terms of operational priorities, IDA donors and Bank management agreed that IDA will link its operations more closely to country-owned poverty reduction strategies. Within the framework of support for PRSPs, donors have stressed the need for IDA to invest in people, especially through education, health and basic infrastructure, and by strengthening public sector management. They reiterated the IDA12 objective of having Africa account for half of IDA allocations.

Donors also agreed to a key innovation in IDA financing. During the IDA13 period, IDA for the first time will be able to provide substantial grants, as opposed to interest-free loans, for certain specific purposes. After a series of difficult negotiations, in which Canada played a strong mediating role, donors agreed that IDA could provide grants in the range of 18–21 per cent of total IDA13 financing. Within the overall grants level of 18–21 per cent of IDA13 financing, donors have suggested that grants be directed at:

1. support for post-conflict countries (up to 100 per cent grants for this type of operation);
2. support for reconstruction following natural disasters (up to 100 per cent grants for this type of operation);
3. support for HIV/AIDS programs in all IDA countries (up to 100 per cent grants for the poorest, IDA-only clients and up to 25 per cent grants for richer, IDA-blend clients);⁸

⁸ IDA borrowers are divided into two categories: "IDA only" and "IDA blend." The latter are generally characterized by higher per capita incomes and are usually considered creditworthy for non-concessional IBRD loans as well as concessional IDA financing. IDA-only countries are the poorest borrowers and they are not considered creditworthy for IBRD non-concessional lending.

4. support for IDA clients with per capita incomes under US\$360 that are vulnerable to longer-term debt sustainability problems (up to 40 per cent grants for operations in these countries); and
5. support for other IDA clients with per capita incomes under US\$360 (up to 23 per cent grants for operations in these countries).

Donors will review the experience with grants at the IDA13 mid-term review that will be held in late 2003.

At the insistence of IDA donors, management has agreed to focus more heavily on measuring the development results of IDA operations. During the IDA13 period, management will develop specific outcome-based benchmarks for assessing the effectiveness of IDA assistance.

IDA donors also urged IDA to be more selective in its operations and to work closely with other development partners, on the basis of comparative advantage. They reaffirmed the importance of IDA's performance-based allocation mechanism, and especially the high weight it assigns governance. They also requested that management assess the impact of this allocation mechanism on poverty levels. At the same time, they recommended that IDA show greater flexibility with respect to allocations to post-conflict countries where there has been little opportunity to establish policy track records.

IDA—Focused on the World's Poorest

Established in 1960, IDA is the single most important source of external development support for the world's poorest countries. IDA provides some US\$8 billion annually in highly concessional long-term financing to 79 countries, home to 2.4 billion people, of whom 80 per cent live on less than US\$2 a day and 40 per cent survive on less than US\$1 a day. From July 2002 IDA was also able to provide a significant portion of its financing to the poorest IDA-eligible countries on a grants basis.

Eligibility for IDA concessional lending is based primarily on an assessment of an individual country's per capita income. In FY 2002 the operational cut-off for IDA eligibility was US\$884 per capita. A number of small island states with per capita incomes above this threshold are also eligible for IDA concessional financing given their limited capacity and high vulnerability to external shocks.

IDA helps provide access to improved social services such as schools, hospitals and clinics, and clean water and sanitation services. IDA also supports investments aimed at improving productivity and creating employment.

To ensure that its resources are used effectively, IDA allocations to clients are governed by performance criteria that are heavily focused on good governance.

Canada's Financial Participation in the IBRD and IDA

IBRD

Canada is a fully paid shareholder of the IBRD, with a capital share of 2.85 per cent and voting share of 2.79 per cent. A relatively small proportion of this capital is required to be "paid-in"—about 6 per cent overall, but just 3 per cent in the last capital subscription. The remainder is "callable" in the unlikely event that the IBRD needs it from member countries. Callable capital represents a contingent liability for shareholders. The IBRD leverages paid-in capital to raise financing in international capital markets for its lending program. The IBRD's capital adequacy is regularly reviewed and the institution's capital is replenished through occasional general capital increases. The last general capital increase was in 1988.

Canada's Total IBRD Subscriptions and Contributions Committed

(in millions of US dollars)	Of which paid-in	Of which callable
5,403.8	334.9	5,068.9

IDA

As IDA concessional financing does not generate a financial return, its operations are underwritten entirely from donor contributions, loan fees and repayments of principal on its outstanding loans, as well as allocations from IBRD net income. To meet Canada's \$690.4-million obligation under IDA13, the Government will issue demand notes in fiscal years 2002–03, 2003–04 and 2004–05, each valued at \$230.133 million. The note for 2002–03 was fully encashed on February 28, 2003. The remaining notes will be encashed in the years that they are issued.

Canada's Contribution to IDA13 (July 2002–June 2005)	Canada's IDA13 Donor share	Canada's IDA13 Voting Share
(in millions of Canadian dollars)	(per cent)	(per cent)
690.4	3.75	2.46

Canada's Priorities at the World Bank

Canada's positions are based on our international development goals and foreign policy priorities and our strong interest in maintaining the financial integrity of the World Bank and its operations.

Poverty Reduction and Human Development

Canada has long been a key player in international efforts to assist the poorest and strongly supports poverty reduction as the overarching objective of the World Bank. As such, Canada endorses the Poverty Reduction Strategy Paper process, under which developing country governments develop and implement broad-based poverty reduction strategies in partnership with the donor community. The Bank has increasingly recognized that poverty reduction cannot be addressed in isolation. Private sector development, good governance, strengthening public expenditure management and the monitoring of non-productive expenditures (especially military), external debt and environmental sustainability are just a few of the factors that need to be considered in designing strategies to help improve the living standards of the poor. In the case of small states, the Bank has to take into account additional factors of economic and physical vulnerability and limited capacity.

Canada strongly supports the Bank's efforts to increase the prominence of social sector issues in macroeconomic stabilization programs. Good macroeconomic policy is key to boosting growth and reducing poverty. At the same time, adequate attention to social issues must be an essential part of macroeconomic stabilization and sustainable development goals.

Seventy-five per cent of the world's poor live in rural areas and, in October 2002, the Executive Board endorsed the Bank's new rural development strategy. The strategy was drafted following consultations held over a two-year period with governments, NGOs, academics and the private sector. The strategy reconfirms that agriculture is the main source of overall economic growth and poverty reduction in many poor countries. The strategy envisages 20-per-cent annual increases in Bank financing for the agricultural sector over the next two years.

The rural strategy, however, also recognizes the importance of the non-farm rural economy. Through its interventions, the Bank aims to improve infrastructure and financial and social services for the rural poor. Under the rubric of its rural strategy, the Bank will promote a Global Forum for Rural Development that will include major donor agencies. The Forum will serve as a focal point for awareness building, advocacy, analytical and policy work on rural subjects, coordination of assistance and co-financing.

The Bank's rural development strategy, entitled *Reaching the Rural Poor*, is available on the Bank's Web site at www.worldbank.org.

Canada's Voting Record

World Bank Executive Board decisions are traditionally taken on a consensus basis, without resorting to a formal vote. On occasion, however, individual Executive Directors have been unable to join the Board consensus. On June 18, 2002, the Canadian Executive Director abstained on a proposed IFC investment in Usha Beltron in India, given concerns about oversupply in the global steel market. On July 26, 2002, the Honourable John Manley, as Governor representing Canada on the World Bank Board of Governors, opposed the proposal to provide World Bank Executive Directors with a 3.8-per-cent increase in remuneration, since it was significantly higher than the 2.5-per-cent increase approved for the World Bank President.

Education

Canada considers education to be a critical factor in development and strongly supports recent efforts by the Bank to increase support to this sector. Commitments to education in FY 2002 amounted to US\$1.4 billion, up from US\$1.1 billion in FY 2001 and roughly double the US\$730 million committed in FY 2000. The Bank also provides important non-lending support for education through its analytic and policy advisory work. The Bank has also focused heavily on girls' education. Guinea provides a good example of the progress that can be made. With the support of Bank financing, Guinea has been able to expand girls' enrolment in primary school by 12 per cent annually since 1991. This was achieved despite a very weak macroeconomic environment.

Canada has worked in collaboration with the Bank and other agencies in support of the Education for All (EFA) Initiative.⁹ The Minister of Finance reinforced Canada's support for EFA in statements to the World Bank-IMF Development Committee and during G-7 Finance Ministers' meetings.

Canada strongly supports the Bank's efforts to develop a "fast-track" initiative to assist countries with good education strategies. The fast-track initiative was developed by the Bank, in close cooperation with the G-8 Education Task Force,¹⁰ and it was endorsed by Development Committee members in April 2002. In June 2002 the Bank listed 18 countries as potential candidates for fast-track donor support, of which 10–12 candidates are expected to be

⁹ At Dakar, Senegal, in April 2000, education and development ministers from across the globe established the six education goals: gender equality in primary and secondary schooling by 2005 and gender equality in all education by 2015; universal primary education of good quality by 2015; a 50-per-cent improvement in adult literacy by 2015; an expansion of early childhood care and education; equitable access by youth and young adults to appropriate learning and life skills programs; and improved education quality.

¹⁰ A task force of senior officials established by G-8 leaders at the 2001 Genoa Summit to review means of improving international support for the Millennium Development Goals for education.

ready for support in early 2003. For its part, Canada will be increasing its support for education programs, including their emphasis on gender parity, in Tanzania and Mozambique. Canada will contribute \$10 million annually to each country for the next five years over and above current commitments.

Development Effectiveness

Ensuring the effectiveness of the Bank's operations has long been a key Canadian objective. This entails more than just reducing costs and saving money. Effectiveness requires selectivity, clear priority setting and efficient service delivery. The Bank needs to operate in those areas where its assistance can be productively used and where it has a clear comparative advantage. The Bank is exercising greater selectivity by focusing on reforming states and good performers. In the case of IDA credits, allocations are based on performance criteria. In order to monitor country performances in a meaningful manner, the Bank is focusing on incorporating poverty-related outcome indicators to measure real results, including such indicators as child malnutrition and child and maternal mortality.

The Bank continues to strengthen its efforts to improve development effectiveness through a renewed emphasis on the quality of its project portfolio. More vigilance is now exercised at the project preparation and supervision stages, and this has led to an improvement in the number of projects that are meeting their development objectives. For FY 2002 the Operations Evaluation Department (OED) estimated that 80 per cent of Bank projects had satisfactory ratings in terms of meeting their development objectives. This represents a steady increase since 1997, when only 73 per cent of projects were rated satisfactory. Recent OED evaluations point to a particular improvement in the performance of projects in Africa, following a determined effort by Bank management to improve project management.

Coordination and harmonization of programs is another critical element of effective development assistance. Canada has consistently urged the Bank to forge stronger partnerships with other multilateral organizations—including the United Nations—and bilateral donors on the basis of comparative advantage.

Gender Issues

Canada actively promotes gender issues as a priority for World Bank operations. World Bank lending in almost all sectors includes activities that specifically benefit women and girls. Following a review of its gender strategy, management committed to integrate gender issues into Bank Country Assistance Strategies and to work with developing countries and external partners to identify appropriate strategies to promote gender equality. In 2001 the Bank published a major policy research report, *Engendering Development—Through Gender Equality in Rights, Resources, and Voice*. The report, which informs the Bank's gender strategy, concluded that there is strong empirical evidence that gender inequalities tend to slow development, while gender equality helps to lower infant mortality, improve nutrition, and

lower fertility and HIV/AIDS transmission rates. CIDA is currently working closely with the Bank to improve the Bank's capacity in gender equity issues. To expand the exchange of knowledge with its development partners, the Bank provides a number of statistical indicators on gender on its Web site.

Private Sector Development

The private sector plays an important role in virtually all development challenges, from protecting the environment to assisting in privatization in transition economies. Canada has maintained that the Bank Group's fundamental priority for private sector development is to create an enabling environment for investment and sound regulatory frameworks for the private sector to develop in a sustainable fashion. In 2001 the Bank Group began consultations with governments, the private sector, NGOs and multilateral agencies on a private sector development strategy. Based on this consultative process, the Bank Group's Private Sector Development Strategy was formally endorsed by Executive Directors in February 2002. The strategy relates to two broad themes: extending the reach of markets and improving the delivery of basic services. The key elements of the strategy include fostering a sound investment climate; providing direct support for private firms; supporting private participation in infrastructure; increasing the role of the private sector in assisting public sector efforts to achieve universal and affordable access to social services; and creating a new approach to more effectively target subsidies to the poor to improve service delivery. Canada has encouraged this increasingly coordinated approach to private sector development.

In FY 2002 the IBRD and IDA together committed US\$330 million in lending in direct support of private sector development. An important example of the private sector's role in development is the growing impact of microcredit operations (relatively small loans made to the poor by grassroots organizations such as the Grameen Bank in Bangladesh). With a small investment, these organizations have been successful in improving the living conditions of the poor—particularly women—in developing countries. Evidence from these operations is compelling; it shows that the poor can be very good entrepreneurs as well as very good credit risks.

The Consultative Group to Assist the Poorest (CGAP), which includes the Bank, Canada, 25 other multilateral and bilateral donors and two private organizations, was established in 1995 to support the development and expansion of sustainable institutions that provide microfinancing services to the poor. In September 2002, CGAP members renewed the Group's mandate for a third term (from 2003 to 2008).

Microcredit: The Consultative Group to Assist the Poorest

Microcredit is an important development instrument in the world's poorest countries. In FY 2002 CGAP committed US\$7.8 million to expand microcredit operations in the world's poorest countries. Canada strongly supports CGAP efforts to expand microcredit, which is now moving into its third phase.

CGAP's third phase will centre on the following four strategic priorities:

- fostering a diversity of financial institutions that serve the poor;
- facilitating the poor's access to a wide range of flexible, convenient financial services;
- improving the availability and quality of information on the performance of microfinance institutions; and
- promoting a sound policy and legal framework for microfinance.

CGAP will work in each of these four strategic areas by providing technical assistance, developing and setting standards, advancing knowledge and information sharing, and offering training and capacity-building services together with other actors.

More information on CGAP is available on the Web at www.cgap.org.

Good Governance and Anti-Corruption

Canada is an advocate of strong Bank support for improved public and corporate sector governance. Over the past decade governance has been mainstreamed into the Bank's adjustment and investment lending, and more recently into its country analytical work. Stress on governance is reflected in the Bank lending numbers for FY 2002. Support for rule of law and public sector reform and institution strengthening accounted for 27 per cent of Bank operations, compared to an annual average of 15 per cent in the mid-1990s.

The Bank's governance strategy, *Reforming Public Institutions and Strengthening Governance*, stresses the need for the Bank to strengthen its tools for evaluating the quality of a country's institutions and for assessing a country's readiness to initiate specific governance reforms. The Bank's Public Expenditure Reviews (PERs) and Financial Accountability Assessments (FAAs) in individual countries will focus increasingly on institutions responsible for budget decision making and implementation, while the more recently introduced Institutional and Governance Reviews will facilitate institutional analysis in other areas of public sector reform. In FY 2002 the Bank conducted 24 PERs and 20 FAAs.

Since 1997 anti-corruption activities have been integral components of the Bank's public sector management portfolio. The Bank has helped put in place more than 600 anti-corruption programs in nearly 100 borrowing countries and has mainstreamed anti-corruption issues into its Country Assistance Strategies. The Bank has amended its procurement guidelines to strengthen the procedures for disqualifying bidders, temporarily or permanently, from future Bank-financed projects if it finds evidence of fraud or corruption. Since the inception of its anti-corruption policy, the Bank has debarred 74 firms or individuals from receiving Bank contracts because of their involvement in corruption or the misuse of Bank funds. Two companies or individuals were debarred in FY 2002.

In its efforts to promote better governance practices, the World Bank Institute has established close working relations with the Parliamentary Centre in Canada and with international organizations.

The Toronto Centre

Recognizing the need to strengthen financial sector regulation and supervision in crisis economies, in 1997 the Government of Canada and the World Bank established the Toronto International Leadership Centre for Financial Sector Supervision. The Toronto Centre provides experience-based training for senior financial supervisors and regulators in emerging markets, putting them in a stronger position to fulfill their responsibilities and thereby reducing the severity and frequency of financial crises. It focuses on the leadership dimension of the supervisory function, offering pragmatic programs based on the premise that experience is the best teacher. The Toronto Centre has trained nearly 600 senior public servants from more than 110 countries. In 2000 it began joint programs with the Financial Stability Institute in Basle, Switzerland, and initiated regionally focused programs in regional settings.

The Bank has provided US\$1.25 million in funding to the Toronto Centre over the past three years. The IMF has contributed US\$1.1 million since 2000. The Bank for International Settlements announced a contribution of US\$500,000 over 2000 and 2002. Canadian funding for the Toronto Centre has been provided by CIDA and several Canadian banks (Canadian Imperial Bank of Commerce, The Bank of Nova Scotia, Royal Bank of Canada and TD Bank Financial Group).

The Toronto Centre can be reached through its Web site at www.torontocentre.org.

Environmentally Sustainable Development

The Canadian government, alongside Canadian NGOs, has long been a vocal advocate of the need for the Bank to better integrate environmental considerations into its operations. The Bank has estimated the economic costs of environmental degradation in many developing countries to be, on average, in the range of 4 to 8 per cent of GDP. Under its environmental strategy, the Bank is moving to improve its environmental safeguard system and to mainstream environmental policies and issues into its loan and policy dialogue work. The Bank also works closely with clients to help them introduce and implement their own environmental safeguard systems to help them manage their resources more sustainably.

While the Bank is mainstreaming environmental considerations into the broad range of its operations, the number of direct environmental investments it supports varies from year to year. In FY 2002 the share of direct environmental lending in overall Bank lending operations decreased to 2 per cent from 4 per cent in FY 2001.

The Bank has been particularly active in the area of climate change. As an implementing agency of the Montreal Protocol's Multilateral Fund, the Bank supports projects in 18 countries and has committed US\$479 million in financing since 1991 for some 785 projects to assist enterprises in developing countries convert to ozone-friendly technologies.

Together with the United Nations Development Programme and United Nations Environment Programme, the Bank is an implementing agency of the Global Environment Facility (GEF). Through the GEF, the Bank supports projects in four key areas: climate change, biodiversity conservation, phase-out of ozone-depleting substances and protection of international waters. Negotiations among 32 donor governments, including Canada, on the third replenishment of the GEF concluded in August 2002 with the agreement endorsed by the World Bank Board in December 2002. Donors agreed to the highest replenishment ever by pledging US\$2.92 billion over the 2002–06 period. Canada agreed to maintain its 4.28-per-cent share of the replenishment, which translates into C\$158.94 million over four years. This represents a substantial increase from our GEF-2 contribution of C\$122 million. Donors also agreed to stronger monitoring of the development and environmental impacts of GEF operations.

US\$100-million BioCarbon Fund

In November 2002 the Bank launched the US\$100-million BioCarbon Fund—a private/public partnership aimed at providing financing to reduce greenhouse gas emissions. The Fund will help farmers and rural communities in developing countries earn income from their agricultural lands and forests from sequestering or conserving carbon through agro-forestry and planting legume trees to improve soil fertility and conservation tillage. Fourteen companies and governments have indicated their interest in supporting investments in biocarbon sinks and have signed a memorandum of understanding with the BioCarbon Fund. The signatories range from power utilities to insurance companies and include Suncor Energy Inc. Participants in the Fund are interested in obtaining emission reduction credits that they may be able to use to meet regulatory requirements or voluntary commitments to reduce greenhouse gas emissions.

The BioCarbon Fund will complement two other Bank-managed carbon funds—the Prototype Carbon Fund and the Community Development Carbon Fund.

The World Bank, as the world's largest single lender for sustainable development projects, worked closely with the organizers of the World Summit on Sustainable Development (WSSD) held in Johannesburg, South Africa, in August and September 2002. At WSSD the Bank launched the 2003 *World Development Report*, which focused on sustainable development issues and launched six specific initiatives: the Global Village Energy Partnership, the Community Development Carbon Fund, the Amazon Rainforest Programme, the Agricultural Science Assessment Programme, the Gas Flaring Initiative and a Poverty and Environment Publication. At President James Wolfensohn's request, following WSSD, Bank management established a senior task force to assess outcomes of the Summit and to identify actions for the Bank.

In October 2002 the Executive Board approved a revised Forestry Strategy for the World Bank aimed at improving both the quality of forest environmental protection and the livelihoods of some 500 million people living in extreme poverty who depend on forests. The strategy was modified following an Operations Evaluation Department review which determined that the two central objectives of the Bank's previous forest strategy—slowing deforestation and increasing forest cover—were not being achieved. Revisions to the strategy were drafted after a four-year consultative process involving governments, NGOs, the private sector and other relevant stakeholders. The strategy replaces the previous blanket prohibition on financing logging in primary moist tropical forests with targeted prohibitions on financing logging in critical forest areas. It also replaces the previous list of preconditions for Bank support for forest investment, which could rarely be met by either developed or developing countries, with an analytical approach to identify the status of national forest policy and practices and the means of bringing about lasting improvements in forest conservation and development outcomes.

World Development Report 2003: Focus on Sustainable Development

In August 2002, on the eve of the World Summit on Sustainable Development that convened in Johannesburg, the World Bank released its *World Development Report* (WDR) for 2003. The WDR focused on sustainable development and argued that new alliances are needed at the local, national and global levels to better address environmental issues. The WDR stressed that if low-income countries are to achieve the Millennium Development Goals, they will need to grow at a rate of 3.6 per cent on average in a sustainable manner.

The WDR emphasized the importance of governance to sustainable development. Misguided policies and weak governance in the past have contributed to environmental disaster, income inequality and social upheavals. It stressed the need for governments in developing countries to become more accountable and transparent and to focus more on ensuring that poor people have access to education, health care and basic services. The WDR also argued that the burden for development must be shared more widely. In particular, it suggested that both reducing trade barriers, including agricultural subsidies, and increasing aid transfers are essential elements for improving the lot of the poorest.

The 2003 WDR is available on-line at www.worldbank.org.

Trade and Development

Canada recognizes that the capacity of small nations, emerging economies and other developing countries to participate effectively in the global trading system is an important component of a comprehensive approach to growth and poverty reduction. Canada has stressed the need to incorporate trade sector capacity building in Bank Country Assistance Strategies and nationally developed Poverty Reduction Strategy Papers.

The objectives of the Bank's work in the trade area cover three distinct but complementary areas:

- at the global level, promotion of change in the world trading system to support development, including activities to promote a pro-development Doha outcome and work with bilateral agencies and NGOs to promote the trade and development agenda;
- at the regional level, promotion of effective cooperation, through both analytical work and active support for cross-cutting issues such as standards and trade liberalization; and
- at the national level, promotion of trade issues in country strategies, including targeted country analysis and technical support.

In July 2002, in a move that highlights the increased importance of trade in the institution's work, management established a Trade Department. The Trade Department provides a single venue for accountability within the Bank for trade-related work, including capacity-building work, global advocacy on trade-related development issues based on research findings, support for trade strategies at the regional and country levels and research on trade issues.

In addition, the Bank is working with five other institutions in the context of the Integrated Framework for Trade-Related Technical Assistance (IF).¹¹ The IF has evolved into an important vehicle for mainstreaming trade issues into least developed country development strategies in a coordinated fashion, with the World Bank playing the role of lead institution. The Bank's intellectual and financial commitment to this project is critical to the success of the IF in both the short and long term. Canada is a strong supporter of the IF and, in addition to providing policy advice, contributed C\$1 million to the IF Trust Fund. Canada is also one of two donor representatives on the IF Working Group and as such is a full partner with the six agencies in setting future directions for the IF.

Transparency and Accountability

Recognizing that transparency and accountability are fundamental to ensuring the longer-term sustainability of the Bank Group's operations and that the "demonstration effect" of the Bank's own policies is important for developing country governments, Canada has been a major proponent of increased openness at the Bank. Canada and other donors have pushed the Bank and borrowing countries to improve consultations with local people—civil society organizations (CSOs) and NGOs—in borrowing countries, not only in the design and implementation of projects but also in the preparation of key policy documents, such as Country Assistance Strategies. The Bank has responded to concerns from shareholders by making public a growing number of documents. Following extensive Bank consultations with governments, civil society, the private sector and the media, the Bank's revised disclosure policy came into effect in January 2002.

Under this new policy, the Bank now discloses to the public:

- documentation outlining key actions supported by a Poverty Reduction Support Credit following loan approval by Executive Directors;
- program documents for other adjustment loans, with the consent of the borrower, following Executive Board approval of the operation;
- a broad range of Operations Evaluation Department reports after they have been released to Executive Directors;

¹¹ The other participants in the IF are the IMF, International Trade Centre, United Nations Conference on Trade and Development, United Nations Development Programme and World Trade Organization.

- environmental safeguard assessments for all projects before project appraisal begins;
- concluding remarks of the Executive Board chair on Country Assistance Strategies, Transitional Support Strategies and CAS Progress Reports that are themselves disclosed;
- concluding remarks on policy and strategy papers on a case-by-case basis; and
- archived documents after 20 years (or five years for types of documents now routinely disclosed).

Substantial headway was made during the 13th IDA replenishment negotiations in expanding transparency and policy dialogue with borrowers and civil society. For the first time six representatives of IDA borrowers participated in formal discussions of the IDA policy framework. IDA donors also decided to release all of their background policy discussion papers to the public in draft form and took the unprecedented step of seeking public comment on their draft report, which defines the IDA13 policy framework.

Transparency also requires better consultation with those affected by projects that the Bank supports. Under President James Wolfensohn, the Bank was the first multilateral organization to establish an independent panel to consider outside complaints. Any group that may be affected by a Bank-supported project has the right to request that the panel investigate whether the Bank has abided by its policies and procedures. Canada has been one of the major supporters of the work of the Inspection Panel. Since its inception in 1994 the panel has received 27 formal requests for inspections, including 3 in FY 2002, and it has found sufficient grounds to proceed with 24 inspections.

Inspection Panel Requests in 2002

In FY 2002 the Inspection Panel received three new requests for inspection relating to the Bujagali hydropower project in Uganda, the Papua New Guinea governance promotion adjustment loan and the Paraguay reform project for the water and telecommunications sectors. In addition, the Panel itself registered a request for inspection of the Argentina SEGBAV power distribution project. The Panel has conducted two other investigations received in 2001 that relate to the Chad petroleum development and pipeline project and the India coal sector environmental and social mitigation project.

During 2002 the Executive Board considered the Panel's reports on the Bujagali project and the Chad-Cameroon pipeline project. In the case of the former, the Board approved management's recommendations to address the Panel's findings. Management committed to amending the indemnity agreement between Uganda and the Bank to examine alternative sources of power, closely monitoring future electricity demand and costs to consumers, providing environmental assessments of the Nile Basin Initiative and encouraging multi-stakeholder consultations on additional power project elements at the Bujagali site. In the case of the Chad-Cameroon project, management pledged to follow up to ensure compliance with Bank environmental and social impact policies and procedures, to intensify its monitoring and supervision efforts and to strengthen the capacity of governments to ensure that project benefits are channelled towards poverty reduction. During the Board discussion, Canada was successful in ensuring that specific timelines were incorporated into the Bank's action plan for capacity building.

The Bank engages with civil society across a broad range of activities, including providing input for poverty assessments, national environmental action plans and other key Bank analytical tools. Particular emphasis has been placed on expanding partnerships with outside groups as more Bank operations are framed in the context of Poverty Reduction Strategy Papers, which embody participatory approaches at the macro level. CSO and NGO representatives from developing countries are now consulted regularly in the preparation of Bank Country Assistance Strategies. Information on the participation of CSOs and NGOs is now included in Bank project appraisal documents.

The NGO-World Bank Committee, a formal mechanism for policy dialogue established in 1982, has evolved into the World Bank-Civil Society Thematic Forum, which will convene a broader range of CSOs, including representatives from NGOs, trade unions, community organizations, small farmers' groups, religious institutions and women's organizations. An annual report is published on the Bank's relations with civil society, and the Bank maintains a Web site (wbIn0018.worldbank.org/essd/essd.nsf/NGOs/home).

Within Canada NGOs have participated in a regular series of government meetings and conferences on such issues as multilateral debt, the environment, IDA and Africa. The Canadian government has benefited greatly from the expertise and advice offered by Canadian NGOs on a broad range of development issues. Through this collaborative process, the views of Canadian NGOs have helped shape Canada's position in Bank project and policy discussions.

The World Bank's Business Plan and Administrative Budget

Recognizing that its corporate planning needs to be more closely aligned with efforts to achieve the Millennium Development Goals, the Bank has moved to a three-year budgetary and corporate-planning cycle. The Bank's administrative budget for FY 2002 was US\$1,589.7 million. This represented a 4.6-per-cent real increase over the FY 2001 budget. In June 2002 Executive Directors approved a total administrative budget of US\$1,672.6 for FY 2003.

FY 2002 IBRD Financial Results

As a development institution, the IBRD does not maximize profit. Instead, it aims to earn a return on its assets that is sufficient to ensure its financial strength and sustain its development activities on an ongoing basis. The IBRD usually earns a net return on its assets of about 1 per cent per annum. In FY 2002 the IBRD managed to achieve a net return on assets of 1.3 per cent, despite increases in provisions. The IBRD's main financial risk rests with the credit quality of its disbursed loan portfolio. At the end of FY 2002 the IBRD's equity-to-loans ratio, which is a summary measure of the institution's risk-bearing capacity, was 22.9, compared to 21.5 in FY 2001. These levels are considered sustainable.

During FY 2002 Côte d'Ivoire, the Republic of Congo and the Democratic Republic of Congo cleared all of their arrears to the Bank and were restored to accrual status. This, in turn, permits new Bank lending. No countries entered non-accrual status in FY 2002. However, given the increase in the credit risks in 2002 in some major IBRD borrowers, the IBRD has increased its provisioning levels.

The Bank follows very conservative borrowing and hedging policies. In FY 2002 the IBRD raised US\$22.05 billion, before swaps, in medium- and long-term debt on international capital markets to fund its operations. This was US\$5 billion higher than in FY 2001. The increase in borrowing in FY 2002 was primarily attributable to the replacement of both maturing assets and issues called. All proceeds from new funding are initially invested in the IBRD's liquid asset portfolio until they are required for IBRD operations.

Allocation of FY 2002 Net Income

IBRD net income in FY 2002 was US\$1.09 billion,¹² roughly US\$400 million higher than in FY 2001. IBRD net income helps to meet other development needs. In addition to providing funding for IDA operations and heavily indebted poor country (HIPC) debt reduction, net income allows the IBRD to respond to unforeseen humanitarian crises and to provide grants, from time to time, for other development causes.

IBRD net income supports development objectives. In July of each year Executive Directors recommend to Governors specific allocations from the previous year's net income. IBRD "allocable" net income, after reserves and interest waivers, was US\$1.9 billion in FY 2002. Governors approved allocations from FY 2002 net income of US\$300 million to IDA, US\$240 million to the HIPC Trust Fund and US\$93 million to the Bank's Pension Reserve. The remainder of FY 2002 net income was transferred to the Bank's general reserve.

How to Access Information at the World Bank

The World Bank's Public Information Centres, in Washington and in many of the Bank's regional offices, provide a wide range of Bank documents, including:

- project information documents;
- project appraisal documents (after approval by the Board of Executive Directors);
- country economic and sector work documents and sectoral policy papers;
- the annual report and the *World Development Report*;
- *Monthly Operational Summary* and *International Business Opportunities*;
- environmental data sheets, assessments, analyses and action plans;
- *World Debt Tables* and *Global Development Finance*; and
- Operations Evaluation Department précis.

These materials and a variety of World Bank and World Bank Institute special studies are available through the Bank's InfoShop located at:

1776 G Street N.W.

Washington, DC 20433, USA

Phone: (202) 458-5454

Fax: (202) 522-1500

E-mail address: pic@worldbank.org

Additional up-to-date information is also available on the Internet at www.worldbank.org/html/pic/PIC.html.

¹² The World Bank (IBRD) prepares its financial statements in accordance with generally accepted accounting principles and international accounting standards. The Bank's financial statements are reviewed by an external auditor. The IBRD's financial statements and IDA's special-purpose statements for FY 2002 were reviewed by Deloitte Touche Tohmatsu and are included in the World Bank's Annual Report for 2002.

Managing Canada's Interests at the World Bank

Finance Minister John Manley, as Canada's Governor at the World Bank, is responsible for the management of Canada's interests at the Bank. Minister Manley exercises his influence through exchanges of views at the Development Committee and annual meetings of the Board of Governors of the Bank, and through discussions with the President of the Bank. Within the Development Committee, Minister Manley represents the interests of Canada and all other members of the Canada/Ireland/Commonwealth Caribbean constituency.

The Department of Finance consults closely with CIDA and the Department of Foreign Affairs and International Trade (DFAIT) in formulating Canadian policies related to Bank issues. Len Good, the President of CIDA, is Canada's Alternate Governor for the World Bank.

Governors have delegated decision making for a wide variety of day-to-day operational, policy and administrative matters to the Bank's Executive Board. The Executive Board formally approves all loans, credits, projects and World Bank policies, discusses Country Assistance Strategies and provides strategic advice to Bank management as appropriate. Of 24 Executive Directors on the Board, 12 are from developing and transition countries and 12 from developed countries. Marcel Massé, who was elected Executive Director in September 2002 by constituency Governors, replacing Terrie O'Leary, represents Canada and the 12 other members of the constituency. In 2002 the Canadian Executive Director sat on the Executive Board's Personnel Committee, which is charged with oversight of the Bank's staffing policy.

Canada's Office at the World Bank

One of the key roles of the office is to provide advice and assistance to Canadian individuals and businesses on doing business with the Bank. The Executive Director's office helped introduce roughly 1,000 Canadian businesses to such opportunities through seminars and workshops held across the country and by organizing direct contacts in Washington. Beyond its formal work, the office provides a valuable bridge between the Bank and Canadian constituents—individuals, NGOs, federal and provincial agencies, associations, the academic community and parliamentarians, among others.

In addition to the Canadian Executive Director's office, the Canadian Embassy in Washington has established an Office for Liaison with International Financial Institutions that can advise Canadians on how to participate in Bank-financed projects. The office can be reached at (202) 682-7719.

Another point of contact for Canadian businesses is the Bank's Business Web page at www.worldbank.org/opportunities. Canadian firms, organizations and institutions that are interested in pursuing opportunities created by Bank-financed projects should consult the Bank's Web site on a regular basis. Information on CIDA's cooperation with and support for World Bank and World Bank-supported programs can be found at www.worldbank.org/canada.

Organization of the Office

The Executive Director is supported in his daily work by a Caribbean Alternate Executive Director, three senior advisors (two Canadian and one Irish), three advisors (two Canadian and one Caribbean) and three locally hired administrative staff. The office works closely with the Canadian government—particularly with the Department of Finance, CIDA and DFAIT. The Department of Finance coordinates Canada's policy advice and channels it to Canada's Executive Director, and through him to World Bank management.

Structure of the Executive Director's office:

Executive Director	Marcel Massé (Canada)
Alternate Executive Director	Sharon Weber (Caribbean)
Senior Advisor	Grant Cameron (Canada)
Senior Advisor	François Pagé (Canada)
Senior Advisor	Donal Cahalane (Ireland)
Advisor	Stephen Free (Canada)
Advisor	Hieu Tom Bui (Canada)
Advisor	Barrington O'Neil Bryce (Caribbean)
Executive Assistant	Deborah Wooldridge
Program Assistant	Monica Morris
Team Assistant	Danielle Pierre
Phone/fax	(202) 458-0082/(202) 477-4155
Address	MC-12-175, 1818 H Street N.W. Washington, DC 20433, USA mmassee@worldbank.org dwooldridge@worldbank.org

Canadian Procurement at the World Bank

Canadian firms benefit from Canada's World Bank membership by accessing procurement opportunities under World Bank-financed loans. Canadian expertise in the power, environmental, engineering, human resources, health, education, telecommunications, financial and transportation sectors has led to procurement opportunities for Canadian firms for developing country projects around the globe. In FY 2002 Canadian companies provided US\$130 million in goods and services under Bank-funded projects with, as in past years, consulting services accounting for approximately half this amount. Canadian companies such as Tecsub International, SNC-Lavalin, CRC SOGEMA, Gowlings Consulting Inc., LEA International, Roche Consulting Inc., Wardrop Engineering, Hydro-Québec International, Econoler, Experco Limitée, Acres International, Wayne Dunn & Associates, SaskPower, SaskTel International, Whyte Reynolds International Inc., Terra Housing Inc, Geomar International

and others that have been successful in gaining financing from the World Bank were joined in 2002 by a number of first-time Canadian players. In 2002 Systeq Instruments Canada Inc., Haus International Holding Ltd. and Datek Industrial Technologies won contracts for road construction and gas development and conservation in China.

The Canada Mortgage and Housing Corporation, Canada Post and the Canadian Manufacturers and Exporters, to name but a few, were among the Canadian corporations that increased their level of activities supported by Bank financing. The Université de Sherbrooke, Université du Québec à Montréal, the University of Alberta, the University of Manitoba and York University joined the ranks of organizations collaborating with the Bank. The Canadian Petroleum Institute, with the World Bank Institute, organized a training session in Calgary that involved more than 30 energy sector specialists from developing countries. The Executive Director's office collaborated with several Canadian private sector companies and government agencies to promote business opportunities with the Bank. Through their participation in Canada in several events and conferences such as International Development Days, the Annual Meeting of the Atlantic Geomatic Industry and special events organized by the World Trade Centre in Montréal and Ontario Export, Bank representatives provided information to the Canadian private sector on how to do business with the Bank.

Trust Fund Activities

Consultant trust funds (which, in Canada's case, are financed by CIDA and administered by the Bank) are a significant source of funds for identifying and preparing Bank projects, programs or analytical work focused on poverty reduction. These trust funds are intended to support the participation of Canadian consultants with limited prior involvement in activities funded by the Bank. In FY 2002 the Board of Directors approved a package of reforms for consultant trust funds which simplify and standardize existing eligibility criteria. These reforms have resulted in new standardized consultant trust fund framework agreements for all donors. The changes strengthen the alignment of the consultant trust funds with the Bank's overall strategic development priorities and resource-planning processes. They also improve management and strengthen oversight of the consultant trust funds. The Bank introduced a 5-per-cent fee for its administration of these funds.

CIDA's framework agreement with the Bank, signed in June 1995, governs all of its other trust fund arrangements with the Bank, the World Bank Institute and the Global Environment Facility. These overall trust fund programs include trust funds for persistent organic pollutants (C\$20 million), the Prototype Carbon Fund (US\$10 million), the Public-Private Infrastructure Advisory Facility (C\$500,000) and the Cities Alliance (C\$800,000). CIDA has established a separate C\$5-million trust fund with the World Bank Institute that enables the organization to engage Canadian expertise in the preparation and delivery of its training programs in countries eligible for Canadian Official Development Assistance. Allocations are made annually to five or six World

Bank Institute programs, based on their compatibility with Canadian development assistance priorities. In FY 2002 CIDA entered into new trust fund arrangements, including the Nile Basin Initiative.

For further information on Canadian consultant trust funds, contact Stéphane Charbonneau, Commercial Counsellor at the Canadian Embassy in Washington (phone [202] 682-7719; fax [202] 682-7789) and François Pagé, Senior Advisor at the Executive Director's office (phone [202] 458-0082; fax [202] 477-4155). Information is also available on the CIDA Web site at www.acdi-cida.gc.ca

International Finance Corporation

The International Finance Corporation (IFC), created in 1956, supplements the activities of the IBRD and IDA by providing financing on commercial terms for productive private sector enterprises that lack access to private capital markets. The institution is the largest multilateral source of loan and equity financing for the private sector in the developing world. The institution provides both loans and equity investments; loans represent 75 per cent of the IFC's disbursed portfolio. Through its co-financing arrangements, it leverages substantial private financing for development purposes. By investing alongside the IFC (as Canadian financial institutions have done since the mid-1990s through their participation in the IFC loan syndication program) investors gain valuable access to potential new customers, attain a high-yielding asset and, given the IFC's good relations with developing country governments, benefit from a degree of implicit political risk coverage.

In FY 2002 the IFC approved investment commitments of US\$3.6 billion for 204 projects in the developing world. Of this amount, US\$518 million was mobilized through loan syndications. The number of IFC loan syndications in FY 2002 was lower than in 2001, given an uncertain international economic and financial environment and its impact on investor appetite for activities in developing countries. Of the US\$3.1 billion of the IFC's own financing, US\$1.98 billion was provided in the form of loans, US\$335 million in the form of other types of guarantees and risk management products, and US\$776 million as equity investments and quasi-equity investments. The IFC earned net income of US\$215 million in FY 2002, compared to US\$345 million in FY 2001.

While the bulk of the IFC's financing is provided to middle-income countries, the institution is increasingly targeting frontier markets (countries, such as those in Africa, traditionally of little interest to private investors). Canada supports this stronger focus on frontier markets, while recognizing the difficulties posed by higher business costs and financial risks.

In 2002 the IFC implemented a reorganization plan that is geared to moving its operations closer to its clients. Under this plan, the institution will decentralize considerable decision-making authority to regional offices. All IFC regional directors now operate from regional offices.

Canada supports a number of technical assistance programs through the IFC's Technical Assistance Programme, which was instituted in 1988 and manages technical assistance programs funded by bilateral and multilateral donors. At the end of FY 2002 the program comprised 40 trust funds that focused on frontier markets, high-impact sectors and small and medium-sized enterprises. In addition to its consultant trust funds with the IFC, CIDA has also provided funding for the South East Europe Enterprise Facility, the Mekong Project Development Facility, the Private Enterprise Partnership and the Foreign Investment Advisory Service.

Canada maintains a 3.45-per-cent share of IFC capital. It has paid-in US\$81.3 million to the IFC's capital stock. Given the risks associated with its financial operations, all of the IFC's authorized capital is paid-in.

Canada's Financial Participation in the IFC

	Subscriptions	Voting Power
Total	(% of total)	(% of total)
US\$81.3 million	3.45	3.39

Multilateral Investment Guarantee Agency

The Multilateral Investment Guarantee Agency (MIGA) was created in 1988 to encourage foreign investment in developing countries by providing viable investment insurance against non-commercial risks (e.g., expropriation, transfer restrictions, breach of contract, and war and civil disturbance), thereby improving or creating investment opportunities. MIGA's Canadian clients include Barrick Gold Corporation, Hydro-Québec International and The Bank of Nova Scotia.

In FY 2002 MIGA approved 58 guarantees totalling US\$1.4 billion for 38 projects, of which 14 were in IDA-eligible countries. MIGA estimates that its guarantees facilitated US\$4.7 billion in foreign direct investment. During FY 2002 MIGA also increased its support for investors from developing countries: it supported 11 projects involving sponsors from the developing world, compared to 8 in FY 2001.

Canada's Financial Participation in MIGA

	Subscriptions	Voting Power
Total	(% of total)	(% of total)
US\$56.535 million	3.29	2.90
Of which paid-in \$10.732 million		
Of which callable \$45.803 million		

Future Challenges

That millions of the world's poorest are unable to share in the benefits of globalization is both an economic and moral issue, and has made development a prominent theme of G-8 meetings and of policy discussions in other multilateral fora (e.g., in the UN system, regional summits and World Trade Organization negotiations). Effective use of scarce resources is central to international discussions of development issues. At the International Conference on Financing for Development in March 2002, developed and developing country leaders agreed that more must be done to channel resources in support of development and that, for their part, developing countries have a responsibility to ensure that these resources are used effectively. Donors, conscious of the uneven results of decades of Official Development Assistance, want to ensure that scarce assistance resources produce quantifiable results. This requires stronger efforts by developing countries to create sound policy and institutional environments. The Bank, as the world's largest provider of development financing, will play a crucial role in providing advisory and financial assistance to countries to help strengthen their economic, social and governance policies.

More effective measurement and monitoring of development results is a critical element of the development effectiveness agenda and Canada will continue to stress the importance of results-based indicators. While the Bank has embarked on a program to improve its results measurement and monitoring, adapting and refining the Bank's results measurement work to different developing country poverty reduction strategies will be a substantial challenge over the medium term.

Recognizing the importance of country-owned development strategies, the major challenge for the future will be to orient the Bank's operations towards those clients which have strong economic and governance frameworks in place and to help convince countries with weak policy frameworks of the need to alter their policies. As the Bank moves increasingly to support nationally owned development strategies, its key challenge will be to work with developing country governments and civil society to ensure that there is

sufficient capacity on the ground to develop and implement these strategies. The Bank will also have to work increasingly with other partners, both multilateral and bilateral, on the basis of their comparative institutional strengths, to improve the quality and effectiveness of development assistance within individual countries.

Without careful attention to the unique needs of individual countries, the Bank will be unable to meet its objectives of improving the quality of its operations and strengthening its development impact. Moreover, the effectiveness of the Bank's own operations must be enhanced through closer partnerships with bilateral donors and international organizations. Cooperation with UN agencies, in terms of measuring global and national progress towards the Millennium Development Goals, will be key, given the high operational priority the Bank attaches to helping countries achieve these goals.

Establishing clear development priorities and being more selective in its operations will be critical to future success. Canada will continue to stress the need for the Bank to be much more selective and transparent in its operations.

JOINT ISSUES

Overview

The IMF and the World Bank are important institutions for Canada, each playing a unique role in the international economic and financial system. Nevertheless, there are key areas where the mandates of the two Bretton Woods institutions overlap, or where there is a requirement for close cooperation and coordination of activities. Indeed, at the Halifax Summit in 1995, G-7 leaders asked that efforts be made to increase cooperation and coordination between the IMF and the World Bank. The heads of both institutions have put considerable effort into fulfilling that objective. Two particular examples—the joint preparation of a proposed program of assistance for HIPC's and cooperation in addressing financial sector reform—are examined below.

Both the World Bank and the IMF are actively involved with the United Nations and member governments in following up on the conclusions of the United Nations International Conference on Financing for Development, held in Monterrey, Mexico, in March 2002, and the World Summit on Sustainable Development, held in Johannesburg, South Africa, in August and September 2002.

At Monterrey and Johannesburg, governments committed to stay fully engaged—nationally, regionally and internationally—to ensure proper follow-up and implementation of agreements and commitments reached at the Monterrey conference, and to continue to build bridges among development, finance and trade organizations and their initiatives. As part of this, they called for greater cooperation among existing institutions, based on a clear understanding and respect for their respective mandates and governance structures. Governments called for a follow-up international conference to review the implementation of the consensus, with the modalities of that conference decided on by 2005.

Agreement was also reached to use a series of discussions among the UN and the governing bodies of other major stakeholders—the Bank, Fund and World Trade Organization (WTO)—to help further follow-up efforts. These would include periodic discussions among representatives of the UN and intergovernmental representatives at the Bank, Fund and WTO; discussions at the annual Bank/Fund spring meeting with UN and WTO representatives; and discussions at the High Level Dialogue in the UN General Assembly each fall, to which representatives of stakeholder institutions would be invited.

Strengthening Financial Sectors

Problems in the financial sector, especially the banking system, can disrupt growth and macroeconomic stability and can spill over regionally and internationally, as shown by the emerging market financial crises of the late 1990s. In response to concerns about such problems, the IMF and World Bank are devoting increasing attention to financial sector issues. Discussions in both institutions in the past couple of years have focused on how they can assist member countries to establish and maintain sound financial systems.

The special Financial Sector Liaison Committee, composed of senior staff from the IMF and the World Bank, helps ensure effective collaboration between the two institutions on financial sector issues and enhance operational coordination on work in the financial sector in individual countries.

To help identify and evaluate vulnerabilities in financial systems, and assess observance of core principles, standards and good practices by member countries, the IMF and World Bank introduced the joint Financial Sector Assessment Program (FSAP) on a one-year pilot basis in May 1999. All 12 FSAP pilot missions were completed by April 2000. After a review of the experience with the FSAP pilot, the IMF and World Bank agreed to extend the FSAP and expand the coverage to up to 24 countries per year. By the end of 2002 over half of the IMF's 184 members had either participated in the FSAP or had volunteered to do so in the near future.

Information on financial system standards assessed under the FSAP is used to support Fund surveillance through the Financial System Stability Assessments (FSSAs), which are provided to the Executive Board as background to the Article IV consultation process. The summary assessments of standards contained in FSSAs become the Reports on the Observance of Standards and Codes modules.

The FSSAs include a form of "peer review" in that they are prepared with the participation of outside experts drawn from national supervisory agencies. This represents the operationalization of Canada's financial sector peer review proposal made at the IMF meetings in April 1998.

Canada was the first industrialized country to undergo an FSSA. IMF and World Bank staff and outside specialists from Australia, Brazil, Germany, Sweden and the United States conducted a pilot review of Canada's financial system in October 1999. The results of the peer review were released in the staff report for the 2000 Article IV consultation with Canada. Overall, the assessment found Canada's financial system to be among the soundest in the world (see www.imf.org/external/pubs/cat/longres.cfm?sk=3420.0).

It is important that the Fund continue to help countries with limited resources and administrative capacities implement key codes and standards through the provision of advice and technical assistance. To help this important work, Canada is a founding contributor to the joint IMF/World Bank Financial Sector

Reform and Strengthening Initiative, which was launched in the spring of 2002 and will provide technical assistance to help countries address financial sector weaknesses identified in FSAPs and Reports on the Observance of Standards and Codes.

The international financial institutions' mandate to strengthen financial systems, promote good governance and fight corruption encompasses the enhancement of a country's capacity to combat money laundering and financial abuse. At the Prague IMF/World Bank annual meetings in 2000, the International Monetary and Financial Committee asked the Fund to explore how to incorporate work on financial abuse, particularly with respect to international efforts to fight money laundering, into its activities. As a result, in April 2001 the Fund's Executive Board agreed the IMF would take the following steps to enhance the international efforts to counter money laundering:

- intensify its focus on anti-money laundering elements in all relevant supervisory principles, in particular by developing a methodology for enhancing the assessment of financial standards relevant to countering money laundering;
- work more closely with major international anti-money laundering groups;
- increase the provision of technical assistance in this area;
- include anti-money laundering concerns in its surveillance and other operational activities when relevant to macroeconomic issues; and
- undertake additional studies and publicize the importance of countries acting to protect themselves against money laundering.

In addition, the Fund and Bank recognized the Financial Action Task Force 40 Recommendations as the appropriate international anti-money laundering standards and agreed to adapt those Recommendations that are relevant to their mandates. As indicated in the "Strengthening Financial Sectors" section on page 15, it was agreed following the events of September 11 that the Fund would extend its involvement beyond money laundering to efforts aimed at countering terrorist financing. In this respect, the Fund has added the Financial Action Task Force's 8 Special Recommendations on terrorist financing to the list of standards and codes useful to the operational work of the Fund and has adopted a comprehensive methodology for anti-money laundering and terrorist financing assessments.

Following the recommendation of the Financial Stability Forum, the IMF also agreed to carry out assessments of offshore financial centres (OFCs) to help them identify and reduce vulnerabilities in their financial systems. Since the program was first launched in late 2001, the IMF has completed OFC assessments for 17 jurisdictions. To help provide technical assistance in the Caribbean region, the Fund, in close collaboration with Canada, established the Caribbean Regional Technical Assistance Centre (CARTAC), which became operational in September 2001. Canada is the largest single donor to CARTAC, which is designed to strengthen the region's technical capability in financial sector regulation and supervision, tax administration and other areas.

Multilateral Debt Relief

In September 1996 the IMF and World Bank launched the Heavily Indebted Poor Countries Initiative (HIPC Initiative) to reduce the unsustainable debt burdens of the world's poorest countries. After a review of the HIPC Initiative in 1999, a number of modifications were approved to provide faster, deeper and broader debt relief and to strengthen the links between debt relief, poverty reduction and social policies. Currently 42 countries are being considered for assistance under the HIPC Initiative. Of these, it is likely that 38, including Guyana—a member of Canada's constituency at the Bank—will benefit from the initiative.

Good progress has been made. As of the end of December 2002, 26 countries were benefiting from debt relief under the HIPC Initiative. Six of them (Bolivia, Burkina Faso, Mauritania, Mozambique, Tanzania and Uganda) have completed the HIPC process and received irrevocable debt relief. These countries will receive over US\$40 billion in debt relief under the HIPC Initiative and additional measures and they will benefit from an average two-thirds reduction in their debt burdens.

With the relatively stronger HIPC cases making good progress, further progress on the overall initiative will require closer examination of how best to bring the eight conflict-affected HIPC countries¹³ into the process. Their special circumstances could merit flexible treatment. However, many countries emerging from conflict have serious governance problems that could undermine assistance efforts; these governance issues will need to be addressed before the international community can engage meaningfully with them.

Maintaining long-term debt sustainability in HIPCs will also be a challenge, given the global economic slowdown. The economic weakness of many HIPCs leaves them vulnerable to exogenous shocks, such as a fall in primary commodity prices, which could alter their debt sustainability prognosis.

¹³ Burundi, Central African Republic, Congo (Democratic Republic of), Congo (Republic of), Liberia, Sierra Leone, Somalia and Sudan.

Canada's Actions in Support of the HIPC Initiative

Canada has been at the forefront of international efforts for a swift and decisive approach to the debt burdens of the world's poorest countries, both multilaterally and bilaterally. Multilaterally, Canada has consistently advanced the debt relief agenda by:

- leading efforts in the G-7 for the enhanced HIPC debt initiative (announced in September 1999), as well as continually working to improve the effectiveness of the initiative, as evidenced by Canada's leadership role on the G-7 Leaders Statement on Debt Relief, issued at the Kananaskis Summit in June 2002;
- committing C\$75 million in Budget 2003 to further debt relief efforts, bringing our total contribution to the HIPC debt relief trust funds at the IMF (C\$65 million) and World Bank (C\$250 million) to C\$315 million. This will help to ensure timely debt relief for deserving countries;
- calling on all bilateral creditors to follow Canada's lead and to put in place a moratorium on debt payments from reforming HIPCs;
- supporting the provision of additional debt relief ("topping-up" assistance) at the completion point of the HIPC process for those countries negatively affected by, for example, falling commodity prices. Canada has also called for a more generous method of calculating the amount of debt relief that should be offered to countries in need of topping-up assistance; and
- calling for flexibility in linking HIPC debt relief to the Poverty Reduction Strategy Paper process to avoid delaying debt relief to deserving countries.

Bilaterally, Canada is helping the poorest countries by:

- no longer collecting debt payments from 11 reforming HIPCs on loans outstanding as of March 31, 1999; this took effect on January 1, 2001, under the Canadian Debt Initiative (CDI); in 2001 this moratorium freed up about C\$75 million in debt payments for other uses;
- forgiving, also under the CDI, all remaining debts owed to Canada for eligible countries that have completed the HIPC process; in 2002 Canada cancelled all debts owed by Tanzania (C\$83.6 million) and Bolivia (C\$10.2 million); HIPCs participating in the CDI owe Canada a combined C\$700 million;
- forgiving C\$1.3 billion in Official Development Assistance (ODA) debt to 46 developing countries since 1978, including all of its ODA debt to 22 HIPCs, at a cost of C\$900 million; of the HIPCs, only Myanmar (formerly Burma) currently has ODA debt to Canada; and
- providing development assistance since 1986 on a grant basis so as to avoid worsening the debt problems in the poorest countries.

ANNEX 1

Active IMF Lending Arrangements—As of December 31, 2002

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Stand-By Arrangements—Total			55,829.10	30,204.69
Argentina ¹	March 10, 2000	March 9, 2003	16,936.80	7,180.49
Bosnia and Herzegovina	August 2, 2002	November 1, 2003	67.60	36.00
Brazil ¹	September 6, 2002	December 31, 2003	22,821.12	18,256.90
Bulgaria	February 27, 2002	February 26, 2004	240.00	156.00
Dominica	August 28, 2002	August 27, 2003	3.28	1.23
Guatemala	April 1, 2002	March 31, 2003	84.00	84.00
Jordan	July 3, 2002	July 2, 2004	85.28	74.62
Lithuania	August 30, 2001	March 29, 2003	86.52	86.52
Peru	February 1, 2002	February 29, 2004	255.00	255.00
Romania	October 31, 2001	April 29, 2003	300.00	165.33
Turkey	February 4, 2002	December 31, 2004	12,821.20	2,892.00
Uruguay ¹	April 1, 2002	March 31, 2004	2,128.30	1,016.60
Extended Fund Facility Arrangements—Total			4,288.00	1,926.24
Indonesia	February 4, 2000	December 31, 2003	3,638.00	1,376.24
Serbia and Montenegro	May 14, 2002	May 13, 2005	650.00	550.00

¹ Includes amounts under the Supplemental Reserve Facility.

ANNEX 1

Active IMF Lending Arrangements—As of December 31, 2002 (cont'd)

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Poverty Reduction and Growth Facility arrangements—Total			4,520.21	2,428.18
Albania	June 21, 2002	June 20, 2005	28.00	24.00
Armenia	May 23, 2001	May 22, 2004	69.00	39.00
Azerbaijan	July 6, 2001	July 5, 2004	80.45	64.35
Benin	July 17, 2000	March 31, 2004	27.00	8.08
Cambodia	October 22, 1999	February 28, 2003	58.50	8.36
Cameroon	December 21, 2000	December 20, 2003	111.42	47.74
Cape Verde	April 10, 2002	April 9, 2005	8.64	6.18
Chad	January 7, 2000	December 6, 2003	47.60	10.40
Congo, Dem. Rep. of	June 12, 2002	June 11, 2005	580.00	160.00
Côte d'Ivoire	March 29, 2002	March 28, 2005	292.68	234.14
Djibouti	October 18, 1999	January 17, 2003	19.08	5.45
Ethiopia	March 22, 2001	March 21, 2004	100.28	31.29
Gambia	July 18, 2002	July 17, 2005	20.22	17.33
Georgia	January 12, 2001	January 11, 2004	108.00	58.50
Guinea	May 2, 2001	May 1, 2004	64.26	38.56
Guinea-Bissau	December 15, 2000	December 14, 2003	14.20	9.12
Guyana	September 20, 2002	September 19, 2005	54.55	49.00
Kenya	August 4, 2000	August 3, 2003	190.00	156.40
Kyrgyzstan	December 6, 2001	December 5, 2004	73.40	49.96
Lao People's Democratic Republic	April 25, 2001	April 24, 2004	31.70	18.11
Lesotho	March 9, 2001	March 8, 2004	24.50	10.50
Madagascar	March 1, 2001	November 30, 2004	79.43	45.39
Malawi	December 21, 2000	December 20, 2003	45.11	38.67
Mali	August 6, 1999	August 5, 2003	51.32	12.90
Moldova	December 21, 2000	December 20, 2003	110.88	83.16
Mongolia	September 28, 2001	September 27, 2004	28.49	24.42
Mozambique	June 28, 1999	June 27, 2003	87.20	16.80
Nicaragua	December 13, 2002	December 12, 2005	97.50	90.54
Niger	December 22, 2000	December 21, 2003	59.20	25.36
Pakistan	December 6, 2001	December 5, 2004	1,033.70	689.12
Rwanda	August 12, 2002	August 11, 2005	4.00	3.43
São Tomé and Príncipe	April 28, 2000	April 27, 2003	6.66	4.76
Sierra Leone	September 26, 2001	September 25, 2004	130.84	56.00
Tajikistan	December 11, 2002	December 10, 2005	65.00	57.00
Tanzania	April 4, 2000	June 30, 2003	135.00	15.00
Uganda	September 13, 2002	September 12, 2005	13.50	12.00
Vietnam	April 13, 2001	April 12, 2004	290.00	165.80
Zambia	March 25, 1999	March 28, 2003	278.90	41.38
Total			64,637.31	34,559.11

ANNEX 2

IBRD Loans and IDA Credits— Fiscal Year 2002 (July 1, 2001 – June 30, 2002)

	IBRD Amount	IDA Amount	Total No.	Total Amount
(in millions of US dollars)				
By area				
Africa	41.8	3,751.6	65	3,793.5
East Asia and Pacific	982.4	791.2	27	1,773.6
Europe and Central Asia	4,894.7	628.9	48	5,523.6
Latin America and the Caribbean	4,188.1	177.8	53	4,365.8
Middle East and North Africa	451.8	102.7	14	554.5
South Asia	893.0	2,615.4	22	3,508.4
Total	11,451.8	8,067.6	229	19,519.4
By theme				
Economic management	0.0	536.0		536.0
Public sector governance	2,542.9	1,384.9		3,927.8
Rule of law	5.0	5.0		10.0
Financial and private sector development	4,809.8	1,779.7		6,589.5
Trade and integration	10.5	23.8		34.3
Social protection and risk management	358.0	569.7		927.6
Social development, gender, inclusion	30.0	110.0		140.0
Human development	1,513.4	1,058.9		2,599.3
Urban development	1,183.6	507.3		1,690.9
Rural development	779.7	1,742.6		2,522.3
Environment and natural resources management	218.9	322.8		541.7
Total	11,451.8	8,067.6		19,519.4

ANNEX 3

IBRD Loans and IDA Credits to Developing Countries

	IBRD		IDA		Total	
	No.	Amount	No.	Amount	No.	Amount
(in millions of US dollars)						
By fiscal year (July–June)						
Cumulative to 1968	549	11,418.1	116	1,831.8	665	13,249.9
Total 1969-73	374	8,917.8	273	3,931.6	647	12,849.4
Total 1974-78	666	24,372.3	376	7,947.4	1,042	32,319.7
Total 1979-83	711	44,908.0	518	16,368.1	1,229	61,276.1
1983-84	129	11,947.2	106	3,575.0	235	15,522.2
1984-85	131	11,356.3	105	3,028.1	236	14,384.4
1985-86	131	13,178.8	97	3,139.9	228	16,318.7
1986-87	127	14,188.2	108	3,485.8	235	17,674.0
1987-88	118	14,762.0	99	4,458.7	217	19,220.7
1988-89	119	16,433.2	106	4,933.6	225	21,366.8
1989-90	121	15,179.7	101	5,522.0	222	20,701.7
1990-91	126	16,392.2	103	6,293.3	229	22,685.5
1991-92	112	15,156.0	110	6,549.7	222	21,705.7
1992-93	122	16,944.5	123	6,751.4	245	23,695.9
1993-94	124	14,243.9	104	6,592.1	228	20,836.0
1994-95	134	16,852.6	108	5,669.2	242	22,521.8
1995-96	129	14,656.0	127	6,864.0	256	21,520.0
1996-97	141	14,525.0	100	4,622.0	241	19,147.0
1997-98	151	21,086.2	135	7,507.8	286	28,594.0
1998-99	131	22,182.3	145	6,811.8	276	28,994.1
1999-00	97	10,918.6	126	4,357.6	223	15,276.2
2000-01	91	10,487.1	134	6,763.5	225	17,250.6
2001-02	96	11,451.8	133	8,067.6	229	19,519.4
Total	4,630	371,557.8	3,453	135,072	8,083	506,629.8

ANNEX 4

Disbursements by IBRD and IDA Borrowers: Goods and Services From Canada—To June 30, 2002

	IBRD Amount	IDA Amount	Total Amount
	(in millions of US dollars)		
By calendar year			
Cumulative to December 1960	133.5	—	133.5
1961	8.2	—	8.2
1962	3.7	—	3.7
1963	5.6	7.4	13.0
1964	4.7	1.8	6.5
1965	5.4	2.7	8.1
1966	11.6	5.3	16.9
1967	13.2	14.7	27.9
1968	6.3	7.8	14.1
1969	4.4	11.0	15.4
1970	7.6	1.3	8.9
1971	11.1	2.2	13.3
1972	10.5	2.3	12.8
1973	12.4	5.1	17.5
1974	15.8	8.4	24.2
1975	22.1	15.0	37.1
1976	25.7	10.8	36.5
1977	34.5	4.8	39.3
1978	26.1	5.5	31.6
1979	44.4	8.1	52.5
1980	51.5	7.8	59.3
1981	94.3	14.5	108.8
1982	75.0	17.6	92.6
1983	82.3	26.9	109.2
1984	92.6	54.3	146.9
1985	94.3	39.7	134.0
1986	184.8	46.8	231.6
1987 (January–June)	92.8	23.4	116.2

ANNEX 4

Disbursements by IBRD and IDA Borrowers: Goods and Services From Canada—To June 30, 2002 (*cont'd*)

	IBRD	IDA	Total
	Amount	Amount	Amount
	(in millions of US dollars)		
By fiscal year			
1987–88	182.1	47.4	229.5
1988–89	197.0	45.0	242.0
1989–90	164.0	41.0	205.0
1990–91	139.0	34.0	173.0
1991–92	131.0	38.0	169.0
1992–93	151.0	41.0	192.0
1993–94	115.0	69.0	184.0
1994–95	123.0	48.0	171.0
1995–96	169.0	56.0	225.0
1996–97	113.0	42.0	155.0
1997–98	82.0	32.0	114.0
1998–99	69.0	37.0	106.0
1999–00	73.0	22.0	95.0
2000–01	45.0	15.0	60.0
2001–02	48.0	16.0	64.0
Total	2,926.0	902.0	3,828.0
Per cent of total disbursements	2.4	1.8	2.2
Per cent of FY 2002 disbursements	2.82	1.43	2.28

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country—
As of June 30, 2002

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Borrower or guarantor				
Afghanistan	—	230.1	20	230.1
Africa region	259.8	50.5	13	310.3
Albania	—	656.9	47	656.9
Algeria	5,728.4	—	70	5,728.4
Angola	—	310.8	11	310.8
Argentina	18,947.4	—	114	18,947.4
Armenia	12.0	683.9	28	695.9
Australia	417.7	—	7	417.7
Austria	106.4	—	9	106.4
Azerbaijan	—	531.1	18	531.1
Bahamas	42.8	—	5	42.8
Bangladesh	46.1	9,913.7	174	9,959.8
Barbados	118.4	—	12	118.4
Belarus	192.8	—	4	192.8
Belgium	76.0	—	4	76.0
Belize	86.2	—	9	86.2
Benin	—	784.5	53	784.5
Bhutan	—	64.3	9	64.3
Bolivia	299.3	1,752.2	79	2,051.5
Bosnia and Herzegovina	—	811.5	39	811.5
Botswana	280.7	15.8	25	296.5
Brazil	31,945.6	—	277	31,945.6
Bulgaria	1,533.1	—	26	1,533.1
Burkina Faso	1.9	1,185.5	56	1,185.5
Burundi	4.8	824.5	52	829.3
Cambodia	—	478.3	19	478.3
Cameroon	1,347.8	1,126	72	2,473.8
Cape Verde	—	178.4	17	178.4
Caribbean region	83.0	43.0	6	126.0
Central African Republic	—	448.5	27	448.5
Chad	39.5	836.5	42	876.0
Chile	3,684.9	19.0	63	3,703.9
China	26,129.2	9,946.7	239	36,075.9
Colombia	10,499.1	19.5	165	10,518.6
Comoros	—	119.1	18	119.1
Congo, Democratic Republic of	330.0	1,651.5	68	1,981.5
Congo, Republic of	216.7	273.3	24	490.0
Costa Rica	938.5	5.5	40	944.0
Côte d'Ivoire	2,887.9	2,042.5	87	4,930.4
Croatia	983.6	—	18	983.6
Cyprus	418.8	—	30	418.8
Czech Republic	776.0	—	3	776.0
Denmark	85.0	—	3	85.0
Djibouti	—	125.6	15	125.6
Dominica	4.0	16.3	5	20.3
Dominican Republic	896.7	22.0	34	918.7

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country— As of June 30, 2002 (cont'd)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Ecuador	2,723.2	36.9	77	2,7601.1
Egypt, Arab Republic of	4,547.5	1,984.0	105	6,531.5
El Salvador	963.2	25.6	35	988.8
Equatorial Guinea	—	45.0	9	45.0
Eritrea	—	385.4	11	385.4
Estonia	150.7	—	8	150.7
Ethiopia	108.6	3,779.5	82	3,888.1
Fiji	152.9	—	12	152.9
Finland	316.8	—	18	316.8
France	250.0	—	1	250.0
Gabon	227.0	—	14	227.0
Gambia	—	259.2	28	259.2
Georgia	—	649.8	28	649.8
Ghana	207.0	4,016.4	110	4,223.4
Greece	490.8	—	17	490.8
Grenada	10.0	16.5	4	26.5
Guatemala	1,325.3	—	38	1,325.3
Guinea	75.2	1,293.2	59	1,368.4
Guinea-Bissau	—	285.9	23	285.9
Guyana	80.0	307.6	29	387.6
Haiti	2.6	626.5	37	629.1
Honduras	717.3	1,258.5	63	1,975.8
Hungary	4,333.6	—	40	4,333.6
Iceland	47.1	—	10	47.1
India	29,690.4	28,844.6	434	58,535.0
Indonesia	27,572.3	1,468.1	297	29,040.4
Iran, Islamic Republic of	2,290.1	—	41	2,290.1
Iraq	156.2	—	6	156.2
Ireland	152.5	—	8	152.5
Israel	284.5	—	11	284.5
Italy	399.6	—	8	399.6
Jamaica	1,531.0	—	66	1,531.0
Japan	862.9	—	31	862.9
Jordan	2,041.7	85.3	68	2,127.0
Kazakhstan, Republic of	1,883.6	—	22	1,883.6
Kenya	1,200.7	3,237.5	125	4,4438.2
Korea, Republic of	15,647.0	110.8	120	15,757.8
Kyrgyzstan	—	621.4	25	621.4

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country—
As of June 30, 2002 (*cont'd*)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Lao People's Democratic Republic	—	662.6	32	662.6
Latvia	395.8	—	18	395.8
Lebanon	1,048.6	—	20	1,048.6
Lesotho	155.0	331.8	31	486.8
Liberia	156.0	114.5	33	270.5
Lithuania	490.9	—	17	490.9
Luxembourg	12.0	—	1	12.0
Macedonia				
(Former Yugoslav Republic of)	276.0	378.7	26	654.7
Madagascar	32.9	2,164.5	86	2,197.4
Malawi	124.1	1,956.6	79	2,080.7
Malaysia	4,150.6	—	88	4,150.6
Maldives	—	64.9	7	64.9
Mali	1.9	1,565.3	65	1,567.2
Malta	7.5	—	1	7.5
Mauritania	146.0	736.7	52	882.7
Mauritius	459.7	20.2	37	479.9
Mexico	33,821.1	—	182	33,821.1
Moldova	302.8	201.5	18	504.3
Mongolia	—	300.4	17	300.4
Morocco	8,545.4	50.8	131	8,596.2
Mozambique	—	2,262.1	42	2,262.1
Myanmar	33.4	804.0	33	837.4
Nepal	—	1,634.5	72	1,634.5
Netherlands, The	244.0	—	8	244.0
New Zealand	126.8	—	6	126.8
Nicaragua	233.6	1,090.2	58	1,323.8
Niger	—	1,030.9	50	1,030.9
Nigeria	6,248.2	1,584.5	107	7,835.7
Norway	145.0	—	6	145.0
Organization of Eastern Caribbean States' countries	24.5	12.6	3	37.1
Oman	157.1	—	11	157.1
Pakistan	6,614.2	6,642.5	196	13,256.7
Panama	1,273.2	—	45	1,273.2
Papua New Guinea	786.6	113.2	44	899.8
Paraguay	816.9	45.5	43	862.4
Peru	5,298.2	—	87	5,298.2
Philippines	11,138.7	294.2	162	11,432.9
Poland	5,384.8	—	37	5,384.8
Portugal	1,338.8	—	32	1,338.8

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country— As of June 30, 2002 (*cont'd*)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Russia	12,560.0	—	51	12,560.0
Rwanda	—	1,073.0	54	1,073.0
Samoa	—	66.0	10	66.0
São Tomé and Príncipe	—	68.9	10	68.9
Senegal	164.9	2,162.9	100	2,327.8
Seychelles	10.7	—	2	10.7
Sierra Leone	18.7	537.2	30	555.9
Singapore	181.3	—	14	181.3
Slovak Republic	335.8	—	4	335.8
Slovenia	177.7	—	5	177.7
Solomon Islands	—	49.9	8	49.9
Somalia	—	492.1	39	492.1
South Africa	287.8	—	12	287.8
Spain	478.7	—	12	478.7
Sri Lanka	210.7	2,428.7	89	2,639.4
Saint Kitts and Nevis	10.9	1.5	3	12.4
Saint Lucia	19.2	24.4	7	43.6
Saint Vincent and the Grenadines	5.4	11.6	4	16.9
Sudan	166.0	1,352.9	55	1,518.9
Swaziland	104.8	7.8	14	112.6
Syrian Arab Republic	613.2	47.3	20	660.5
Taiwan, Province of China	329.4	15.3	18	344.7
Tajikistan	—	302.1	17	302.1
Tanzania	318.9	3,910.6	120	4,229.5
Thailand	7,979.1	125.1	124	8,104.2
Togo	20.0	733.5	42	753.5
Tonga	—	10.9	3	10.9
Trinidad and Tobago	313.6	—	21	313.6
Tunisia	4,954.1	74.6	120	5,028.7
Turkey	20,117.9	178.5	145	20,296.4
Turkmenistan	89.5	—	3	89.5
Uganda	9.1	3,401.4	83	3,410.5
Ukraine	3,222.8	—	22	3,222.8
Uruguay	1,815.1	—	49	1,815.1
Uzbekistan	519.1	20.0	12	539.1
Vanuatu	—	18.9	5	18.9
Venezuela	3,328.4	—	40	3,328.4
Vietnam	—	3,862.5	36	3,862.5
Western Africa region	6.1	61.9	5	68.0
Yemen, Republic of	—	1,995.9	125	1,995.9
Yugoslavia, Federal Republic of	—	171.8	4	171.8
	6,060.7	—	89	6,090.7
Zambia	679.1	2,492.3	78	3,171.4
Zimbabwe	983.2	661.9	36	1,645.1
Bank-wide total	371,471.9	135,073.5	8,070	506,545.3

ANNEX 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2002, by Country (July 1, 2001 – June 30, 2002)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Borrower or guarantor				
Afghanistan	—	100	4	100
Albania	—	87.5	5	87.5
Algeria	30.7	—	3	30.7
Argentina	735.0	—	3	735.0
Armenia	—	39.2	4	39.2
Azerbaijan	—	69.5	2	69.5
Bangladesh	—	321.4	4	321.4
Benin	—	41.0	2	41.0
Bolivia	—	83.0	1	83.0
Bosnia and Herzegovina	—	102.0	4	102.0
Brazil	1,566.3	—	11	1,566.3
Burkina Faso	—	121.6	4	121.6
Burundi	—	36.0	1	36.0
Cambodia	—	48.2	3	48.2
Cameroon	—	5.5	1	5.5
Cape Verde	—	24.0	2	24.0
Central African Republic	—	17	1	17.0
Chad	—	64.6	2	64.6
Chile	99.0	—	2	99.0
China	562.9	—	5	562.9
Colombia	185.5	—	2	185.5
Comoros	—	6.0	1	6.0
Congo, Democratic Republic of	—	500	2	500
Congo, Republic of	—	89.7	4	89.7
Costa Rica	17.0	—	1	17.0
Côte d'Ivoire	—	212.0	1	212.0
Croatia	202.0	—	1	202.0
Djibouti	—	25.0	2	25.0
Dominica	1.0	2.2	1	3.2
Ecuador	66.9	—	3	66.9
El Salvador	1.1	2.7	1	3.8
Egypt, Arab Republic of	50.0	—	1	50.0
Eritrea	—	65.0	2	65.0
Ethiopia	—	210.0	3	210.0
Gambia, The	—	31.0	2	31.0
Georgia	—	2.7	1	2.7
Ghana	—	330.5	2	330.5
Grenada	1.1	2.7	1	3.8
Guatemala	184.8	—	3	184.8
Guinea	—	145.0	2	145.0
Guinea-Bissau	—	26.0	1	26.0
Honduras	—	40.4	2	40.4

ANNEX 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2002, by Country (July 1, 2001 – June 30, 2002) (cont'd)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
India	893.0	1,296.5	10	2,189.5
Indonesia	232.2	70.5	3	302.7
Jamaica	130.0	—	3	130.0
Jordan	5.0	—	1	5.0
Kenya	—	16.5	1	16.5
Kyrgyzstan	—	15.0	1	15.0
Lao People's Democratic Republic	—	44.8	3	44.8
Latvia	2.0	—	1	2.0
Lebanon	108.5	—	2	108.5
Lithuania	42.5	—	2	42.5
Macedonia (Former Yugoslav Republic of)	—	35.0	3	35.0
Madagascar	—	43.8	2	43.8
Mali	—	113.5	2	113.5
Mauritania	—	122.5	3	122.5
Mauritius	41.8	—	2	41.8
Mexico	660.0	—	4	660.0
Moldova	—	45.5	2	45.5
Mongolia	—	28.7	3	28.7
Morocco	5.0	—	1	5.0
Mozambique	—	270.5	4	270.5
Nepal	—	22.6	1	22.6
Nicaragua	—	32.6	1	32.6
Niger	—	108.7	2	108.7
Nigeria	—	427.3	4	427.3
Pakistan	—	800	2	800
Papua New Guinea	57.4	—	2	57.4
Panama	10.5	—	1	10.5
Paraguay	9.0	—	1	9.0
Philippines	130.0	—	2	130.0
Poland	100.0	—	1	100.0
Romania	60.0	—	2	60.0
Russian Federation	351.0	—	2	350.1
Rwanda	—	25.0	1	25.0
Senegal	—	44.7	2	44.7
Sierra Leone	—	65.0	2	65.0
Slovak Republic	200.8	—	2	200.8
Sri Lanka	—	75.0	1	75.0
Saint Kitts and Nevis	9.4	—	2	9.4
Saint Lucia	9.2	11.7	3	20.9
Saint Vincent and the Grenadines	4.0	5.2	2	9.1

ANNEX 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2002,
by Country (July 1, 2001 – June 30, 2002) (cont'd)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
Tajikistan	—	40.8	3	40.8
Tanzania	—	402.0	5	402.0
Tonga	—	5.9	1	5.9
Tunisia	252.5	—	1	252.5
Turkey	3,550.0	—	4	3,550.0
Uganda	—	180.7	4	180.7
Ukraine	330.2	—	3	330.2
Uruguay	60.5	—	2	60.5
Uzbekistan	56.1	20.0	2	76.1
Vietnam	—	593.0	5	593.0
Yemen, Republic of	—	77.7	3	77.7
Yugoslavia, Federal Republic of	—	171.8	4	171.8
Zambia	—	6.7	1	6.7
Bank-wide total	11,451.8	8,067.6	229	19,519.4

